JAIIB EXAMINATION

Retail Banking and Wealth Management

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RETAIL BANKING AND WEALTH MANAGEMENT

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JAIIB Retail Banking and Wealth Management
Chapterwise Question Bank
Edition January 2026
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CHAPTER 1
Retail Banking: Introduction

Oct/Nov 2016

1. According to the introductory text, what has been the primary driver behind the upswing in the Indian economy, leading to increased income and saving levels?
   (A) The adoption of a product-centric banking approach
   (B) The liberalization policy adopted by the planners
   (C) The government's focus on corporate lending
   (D) The expansion of traditional banking roles

   Ans :

   (B) The liberalization policy adopted by the planners
   The text states that the Indian economy has witnessed an upswing due to the liberalization policy adopted by planners. This economic change has led to increased income and savings, subsequently increasing demand on financial markets and banks, which are seen as safe and secure sources for individual savings and investments, driving the evolution of retail banking.

May/June 2021

2. What fundamental shift in approach are banks making to thrive in a competitive market, as described in the introduction?
   (A) From a Product-Centric Approach to a Customer-Centric Approach
   (B) From a Customer-Centric Approach to a Product-Centric Approach
   (C) From a liability-focused model to an asset-focused model
   (D) From an intermediation role to a purely deposit-taking role

   Ans :

   (A) From a Product-Centric Approach to a Customer-Centric Approach
   The text highlights that due to increased competition, it has become imperative for banks to move away from a Product-Centric Approach to a Customer-Centric Approach. This shift involves developing customized products to suit the specific needs of a variety of customers, recognizing that the customer is king and must be retained by satisfying their requirements.

Oct/Nov 2005

3. What is described as the primary function of banks and the first step towards intermediation?
   (A) Offering para-banking services like insurance
   (B) Providing wealth management and advisory
   (C) Mobilisation of deposits from the public
   (D) Focusing solely on retail lending products

   Ans :

   (C) Mobilisation of deposits from the public
   The text explicitly states that intermediation is the primary function of banks and mobilisation of deposits is the first step in this process. Banks accept deposits from the public and then lend these funds to the enterprise class for productive activities, which stimulates economic activity and contributes to the creation of further wealth.

May/June 2014

4. Retail banking is defined as the provision of banking products and services offered to individual customers for what primary purpose?
   (A) Entrepreneurial and business expansion purposes
   (B) Large-scale corporate financing
   (C) Capital market investment purposes
   (D) Non-entrepreneurial purposes

   Ans :

   (D) Non-entrepreneurial purposes
   The text defines Retail Banking as the provision of banking products and services offered to individual customers, typically for non-entrepreneurial purposes. This distinguishes it from wholesale or corporate banking, which caters to the financial needs of businesses and corporations. Retail banking focuses on personal financial needs like housing, auto, and personal loans for individuals.

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Oct/Nov 2023

5. Based on the source, which of the following is categorized as an asset-side product in retail banking?
(A) Fixed deposit accounts
(B) Savings accounts
(C) Housing loans
(D) Insurance products

Ans :

(C) Housing loans
The provided text clearly segregates retail banking products based on the balance sheet. It lists mortgages and loans, including personal, housing, auto, and educational loans, as products on the asset side for a bank. Fixed deposits and savings accounts are categorized on the liability side, while insurance is mentioned as a para-banking product.

May/June 2008

6. What is the term used for the stage of retail banking where a bank provides standardized products and services to the common masses to build a broad customer base?
(A) Class retail banking
(B) Mass retail banking
(C) Private banking
(D) Niche retail banking

Ans :

(B) Mass retail banking
The text describes 'mass retail banking' as the initial stage where a bank targets the common masses with standardized banking products and services. The primary objective of this phase is to build a sufficiently broad customer base, which can then serve as a stable and reliable source of funding for the bank's lending activities.

Oct/Nov 2012

7. According to the graphical representation of banking segments, under which primary category does 'Wholesale' banking fall?
(A) Individuals
(B) Firms
(C) Entrepreneurial
(D) Firms

Ans :

(D) Firms
The diagram illustrating the positioning of different banking segments shows a primary division between 'Individuals' and 'Firms'. Under the 'Firms' category, the sub-segments shown are 'Wholesale' and 'MSME-Firms'. This indicates that wholesale banking is a service model directed towards corporate entities and firms, as opposed to retail banking which targets individuals.

May/June 2019

8. Which term is synonymous with Retail Banking and emphasizes its focus on individual consumers?
(A) Consumer Banking
(B) Corporate Banking
(C) Wholesale Banking
(D) Investment Banking

Ans :

(A) Consumer Banking
The text provides several definitions of retail banking, explicitly stating that it is "also known as consumer banking or personal banking." This terminology underscores the core nature of this banking segment, which is to provide financial services directly to individual consumers for their personal needs, rather than to businesses or other large organizations.

Oct/Nov 2020

9. Which of the following statements about retail banking is INCORRECT?
(A) Retail banking focuses strictly on consumer markets, unlike wholesale banking.
(B) Retail banking can be streamlined electronically via ATMs and online banking.
(C) Retail banking services are exclusively provided by large commercial banks.
(D) Retail banking products may sometimes extend to small and medium-sized businesses.

Ans :

(C) Retail banking services are exclusively provided by large commercial banks.
The text states that retail banks can be local community banks or the divisions of large commercial banks, indicating that they are not exclusively provided by large banks. The other statements are correct: retail banking focuses on consumers, is increasingly digital, and its products can sometimes be offered to small or medium-sized businesses.

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May/June 2005

10. While retail banking services are provided to the general public, corporate banking services are typically provided to which entities?
(A) Small or large companies and other corporate bodies
(B) Only to high net-worth individuals and their families
(C) Only to government organizations and public sector units
(D) Non-profit organizations, charitable trusts, and foundations

Ans :

(A) Small or large companies and other corporate bodies
The text draws a clear distinction between retail and corporate banking. It specifies that while retail banking services are for individuals in the general public, corporate banking services are exclusively provided to small or large companies and corporate bodies. This highlights the different target clienteles of these two major banking segments.

Oct/Nov 2010

11. Which of the following are key characteristics of Retail Banking?
1. Targeted at individual customers or small business organisations.
2. Focused on a niche market segment with a very small population.
3. Offers a narrow range of liability-side products only, such as deposits.
4. The delivery model is exclusively through a network of physical branches.

(A) 1 only
(B) 1 and 4 only
(C) 2 and 3 only
(D) All of the above

Ans :

(A) 1 only
The text lists several characteristics of retail banking. It is targeted at individuals or small organizations and focuses on the mass market, not a niche segment. It offers a plethora of liability, asset, and service products, not just liability products. The delivery model is both physical (branches) and virtual (ATMs, internet banking), not exclusively physical.

May/June 2012

12. One of the primary advantages of retail banking is that the risk is spread across a large customer base. What is the main reason for this diversification?
(A) All customers are high net-worth individuals with strong credit histories.
(B) Loan amounts are relatively small and distributed among many borrowers.
(C) Retail loans are fully secured by government guarantees.
(D) Customers tend to change banks frequently, spreading the risk.

Ans :

(B) Loan amounts are relatively small and distributed among many borrowers.
The text explains that in retail banking, the client base is large, and credit risk tends to be well-diversified because the loan amounts are relatively small. This contrasts with corporate lending, where a default by a single large borrower can have a significant impact. Spreading the lending portfolio across many small-ticket loans minimizes concentration risk.

Oct/Nov 2025

13. Which of the following is NOT listed as an advantage of retail banking?
(A) Strong customer loyalty with good scope for cross-selling.
(B) Attractive and wide interest spreads.
(C) Low cost of maintaining branch networks.
(D) Less volatility in demand and credit cycle compared to large corporates.

Ans :

(C) Low cost of maintaining branch networks.
The text lists the high costs of maintaining branch networks and handling large numbers of low-value transactions as a constraint of retail banking, not an advantage. The other options—strong customer loyalty, wide interest spreads, and less volatility in demand and credit cycles—are all mentioned as distinct advantages of the retail banking segment.

May/June 2017

14. What is a significant constraint of retail banking, especially if the bank's IT systems are not sufficiently robust?
(A) Difficulty in attracting a large number of clients

NODIA

(B) Inability to offer diversified products
(C) Limited scope for cross-selling opportunities
(D) Problems in managing large numbers of clients

Ans :

(D) Problems in managing large numbers of clients
The text explicitly identifies "Problems in managing large numbers of clients" as a major constraint in retail banking. This challenge is particularly pronounced if the available Information Technology (IT) systems are not robust enough to handle the high volume of customers, transactions, and data efficiently, which is essential for effective management and service delivery.

Oct/Nov 2018

15. A sudden outflow of retail deposits due to a loss of faith in a particular bank, potentially leading to its collapse, is known as a:
(A) Bank run
(B) Credit crunch
(C) Bank consolidation
(D) Liquidity trap

Ans :

(A) Bank run
The text describes a key constraint where any loss of faith in a bank can trigger a sudden outflow of retail deposits. This phenomenon, which can result in the collapse of the institution, is specifically termed a "bank run". It highlights the risk associated with reliance on a large base of individual depositors.

May/June 2009

16. Historically, before the 1960s in India, what was the primary focus of banking?
(A) Lending to individual consumers for personal needs like home and auto loans
(B) Lending to businesses and corporations for capital and project finance
(C) Mass-market banking services offered to the general population nationwide
(D) Providing modern digital banking services and consumer credit card products

Ans :

(B) Lending to businesses and corporations for capital and project finance
The text on the evolution of retail banking states that historically, banking in the Indian scenario before the 1960s was identified with lending to business and corporate clients. The focus was on providing working capital and project financing for needs like raw materials, work in progress, and finished goods, catering to a "class" of clients.

Oct/Nov 2007

17. The emergence of specialized banks like Investment Banks and Merchant Banks was a response to what development in the banking sector?
(A) A new regulatory mandate requiring the formal separation of retail and corporate banking functions
(B) The legacy architecture of banks being unable to service diverse and sophisticated corporate needs
(C) A sharp decline in retail deposit growth, which forced banks to find alternative revenue streams
(D) A government-led initiative focused on promoting mass-market lending to the general population

Ans :

(B) The legacy architecture of banks being unable to service diverse and sophisticated corporate needs
The text explains that as customer needs expanded and became more complex, the legacy architecture of traditional banks was unable to service these diverse requirements. This led to the emergence of banks with a functional focus, such as Investment Banks and Merchant Banks, to handle specialized activities like corporate capital raising and debt structuring.

May/June 2023

18. A bank in the 1970s primarily focused on financing raw materials and finished goods for a select group of corporate clients. Over time, it found its existing structure inadequate to handle new demands for services like mergers and acquisitions. This situation led to the emergence of what type of specialized banking function?
(A) Investment Banking
(B) Retail Banking
(C) Consumer Banking
(D) Mass-market Banking

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Ans :

(A) Investment Banking
The scenario described mirrors the evolution of banking where traditional commercial banks could not meet the diverse growth needs of organizations. The text states that to handle activities like corporate capital raising, fund raising, debt structuring, and Mergers & Acquisitions, specialized avatars like Investment Banks and Merchant Banks emerged to fulfill these multi-dimensional functions.

Oct/Nov 2014

19. According to the "World Retail Banking Report 2015" by Capgemini and EFMA, what is a major finding regarding customer behavior, especially among the younger generation?
(A) They are more likely to take on personal debt and actively refer friends to their bank
(B) They show increasing loyalty to their primary bank and are very hesitant to switch providers
(C) They are less likely to take debt, switch banks, or refer friends
(D) They strongly prefer back-end service efficiency over the quality of front-end customer experience

Ans :

(C) They are less likely to take debt, switch banks, or refer friends
The report's findings indicate a decline in positive customer behavior, with the shift being mainly on account of the younger generation. This demographic is characterized as being less likely to take on debt, more likely to switch banks, and less likely to refer friends or purchase additional retail products from their current bank.

May/June 2010

20. Based on the source data from the World Retail Banking Report 2016, what is the significant gap identified within the banking industry?
(A) A gap between fintech popularity and bank profitability
(B) A gap between the number of customers and the number of bank executives
(C) A gap between the needs of younger and older customers
(D) A gap between acknowledging the digital trend and being prepared for it

Ans :

(D) A gap between acknowledging the digital trend and being prepared for it
The provided text highlights a major disparity. An overwhelming majority of banking executives (96%) recognize the shift towards a digital ecosystem. However, a very small fraction (only 13%) state that their banks have the necessary systems in place to actually support this evolution, indicating a significant gap between awareness and operational readiness.

Oct/Nov 2024

21. In the Indian context, which type of banks set the trend for consumer banking models in the late 1970s and early 1980s?
(A) Public Sector Banks (PSBs)
(B) Regional Rural Banks (RRBs)
(C) Foreign banks
(D) Co-operative banks

Ans :

(C) Foreign banks
The text explicitly states that the evolution of retail banking in India can be traced back to the entry of foreign banks. These banks are credited with setting the trend in the late 1970s and early 1980s by introducing consumer banking models with products specifically targeted at the personal segment, a departure from the generalized approach of PSBs.

May/June 2015

22. Which two banks are mentioned as pioneers in introducing hybrid liability and asset products targeted at the personal segment in India?
(A) Bank of Baroda and Andhra Bank
(B) Standard Chartered Bank and Grindlays Bank
(C) State Bank of India and Indian Overseas Bank
(D) Citibank and Bank of India

Ans :

(B) Standard Chartered Bank and Grindlays Bank
The text identifies Standard Chartered Bank and Grindlays Bank as the pioneers in introducing consumer banking models in India. They came out with hybrid liability and asset products that were specifically targeted at the personal segment, marking a significant step in the evolution of the

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country's retail banking landscape in the late 1970s and early 1980s.

Oct/Nov 2011

23. The entry of which type of banks in the early 1990s created a new, technology-driven approach to retail banking in India?
(A) Revitalized public sector banks
(B) Foreign banks entering for the first time
(C) Standalone merchant banks
(D) New generation private sector banks

Ans :

(D) New generation private sector banks
The text highlights that the entry of new generation private sector banks in the early 1990s was a pivotal moment. Leveraging technology from the start, these banks had a clear positioning for retail banking and aggressively strategized to create new markets, posing a threat to both foreign banks and prompting PSBs to redefine their models.

May/June 2020

24. Which of the following is NOT listed as a factor that has catapulted the scope for retail banking business in India?
(A) A decline in the young population
(B) Growing urban population and higher disposable incomes
(C) Explosion of the service economy
(D) Rise in the mass affluent space

Ans :

(A) A decline in the young population
The text lists several factors driving retail banking in India, including "rise in young population". A decline in the young population would be a negative factor, not a driver of growth. The other options, such as a growing urban population, higher disposable incomes, a booming service economy, and a rising mass affluent class, are all mentioned as positive contributors.

Oct/Nov 2015

25. What recent trend has been observed regarding Non-Banking Finance Companies (NBFCs) and MNCs in the context of the customer pyramid?
(A) They are exiting the retail finance segment due to high competition.
(B) They are focusing exclusively on the top of the customer pyramid.
(C) They are aggressively entering the 'Bottom of the Pyramid' segment.
(D) They are merging with conventional banking players to reduce threats.

Ans :

(C) They are aggressively entering the 'Bottom of the Pyramid' segment.
The text notes a recent trend where Non-Banking Finance Companies (NBFCs) and MNCs have become active in the 'Bottom of the Pyramid' segment. This aggressive entry is posing a significant threat to conventional banking players who had, until recently, focused more on the top and higher middle end of the customer pyramid.

May/June 2013

26. Which two RBI publications are mentioned as sources for data reflecting the business performance of retail banking in India?
(A) "Report on Trend and Progress of Banking in India" and "Financial Stability Report"
(B) "Annual Report" and "Monetary Policy Report"
(C) "Payment Systems in India" and "Report on Currency and Finance"
(D) "Weekly Statistical Supplement" and "Handbook of Statistics on Indian Economy"

Ans :

(A) "Report on Trend and Progress of Banking in India" and "Financial Stability Report"
The text explicitly mentions that the growth in various elements of the retail banking space is published by the RBI in their Bulletin, "Report on Trend and Progress of Banking in India" and the "India & Financial Stability Report". These reports are cited as the source for the subsequent data tables on retail assets and services.

Oct/Nov 2021

27. Based on the source data for the year 2021, which retail asset class recorded the highest percentage growth?
(A) Housing Loans
(B) Credit Card Receivables
(C) Educational Loans
(D) Consumer durable loans

Ans :

(D) Consumer durable loans
According to the provided table on the growth rate of retail assets, consumer durable loans exhibited a remarkable percentage growth of 93.4% in the

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year 2021. This was significantly higher than the growth rates recorded for housing loans (11.8%), credit card receivables (4.9%), and the negative growth seen in educational loans (-0.3%).

May/June 2024

28. Based on the table "Growth Rate of Retail Assets of the Banking System," what was the total value of Housing Loans in 2021?
(A) ₹13965 Billion
(B) ₹15619 Billion
(C) ₹12044 Billion
(D) ₹29864 Billion

Ans :

(B) ₹15619 Billion
The table "I. Growth Rate of Retail Assets of the Banking System" shows the absolute amounts for various retail assets. For the year 2021, the value listed for Housing Loans is ₹15619 Billion. This figure represents the outstanding amount for that asset class at the end of the specified period.

Oct/Nov 2008

29. According to the table "Percentage of Retail Assets to Total Assets of the Banking System," what was the percentage share of Retail to Total Advances in 2021?
(A) 24.18%
(B) 26.33%
(C) 28.06%
(D) 5.4%

Ans :

(C) 28.06%
The table "II. Percentage of Retail Assets to Total Assets of the Banking System" provides data on the composition of bank advances. The row "Percentage share of Retail to Total Advances" clearly shows the figure for the year 2021 as 28.06%, indicating a growing share of retail loans in the overall lending portfolio of the banking system.

May/June 2006

30. As per the data on the Number of ATMs of Schedule Commercial Banks, what was the total number of ATMs (Onsite + Offsite) as on 31.03.2021?
(A) 202072
(B) 210760
(C) 122976
(D) 213575

Ans :

(D) 213575
The table "III. Number of ATMs of Schedule Commercial Banks" provides a breakdown of ATM numbers. For the date 31.03.2021, the figure for the "Total Number of ATMs" is explicitly stated as 213575. This represents the combined count of both onsite and offsite ATMs operational at that time across scheduled commercial banks.

Oct/Nov 2017

31. What percentage of bank branches were covered under Core Banking Solution (CBS) as of 31.03.2021?
(A) 100%
(B) 95%
(C) 173%
(D) 167%

Ans :

(A) 100%
The table "III. Number of ATMs of Schedule Commercial Banks" includes a row for "Coverage of Branches" under CBS. For all three years listed (2019, 2020, and 2021), the coverage is shown as 100%. This indicates the complete integration of bank branches into the core banking solution network, which is crucial for modern banking operations.

May/June 2011

32. According to the table on "Other/ New Payment Infrastructure," which new payment infrastructure showed the most explosive growth, going from non-existent in 2019 to 925.22 lakhs in 2021?
(A) White Label ATMs
(B) UPI QR
(C) Micro ATMs
(D) Bharat QR

Ans :

(B) UPI QR
The data in the "Other/ New Payment Infrastructure" table shows that the number of UPI QR codes was not listed for 2019, indicating it was nascent or not tracked. It then grew to a massive 925.22 lakhs by 31.03.2021, demonstrating the most significant and explosive growth among the listed infrastructures during that period.

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Oct/Nov 2022

33. Based on the provided data for 2020-21, which payment system recorded the highest transaction volume?
(A) RTGS
(B) UPI
(C) NEFT
(D) IMPS

Ans :

(B) UPI
The source table clearly shows the transaction volumes for various payment systems in the fiscal year 2020-21. Unified Payments Interface (UPI) recorded a volume of 22,330 million transactions, which is substantially higher than the volumes for RTGS (159 million), NEFT (3,092 million), and IMPS (3,278 million), making it the leader in transaction volume.

May/June 2018

34. The housing loan component constitutes what percentage of the total retail portfolio of banks, as per the performance analysis from 2019 to 2021?
(A) More than 52%
(B) Approximately 42%
(C) Less than 25%
(D) Exactly 60%

Ans :

(A) More than 52%
The performance analysis of different segments of retail banking explicitly states that the "housing loan component which constitutes more than 52% of the total retail portfolio of banks increased by 29.68% from 2019 to 2021." This highlights the dominance of housing loans within the overall retail lending space of banks.

Oct/Nov 2009

35. At the end of March 2021, the gross outstanding credit of scheduled commercial banks increased by what percentage?
(A) 13.4%
(B) 6.0%
(C) 5.4%
(D) 8.4%

Ans :

(C) 5.4%
The text, in its analysis of retail banking performance, mentions the moderation in demand for bank credit. It specifies that "at the end of March 2021, gross outstanding credit of scheduled commercial banks increased by 5.4% to ₹106408 billion," comparing this with the higher growth rates of 6% and 13.4% in the preceding years.

May/June 2022

36. During 2020-2021, which payment system emerged as the most popular, being very cost-effective and convenient for small value transactions?
(A) NEFT
(B) Credit Cards
(C) Mobile Wallets
(D) QR code

Ans :

(D) QR code
The analysis highlights that the "New system known QR code emerged as most popular payment system during 2020-2021." It further adds that with over 96 million static QR codes registered, they became a very cost-effective and convenient method for small value payments, indicating their widespread adoption and popularity during that period.

Oct/Nov 2013

37. Which banking service has grown more than four times between 2019 and 2021 and became the most preferred way of banking?
(A) Branch banking
(B) ATM transactions
(C) Mobile banking
(D) Cheque-based payments

Ans :

(C) Mobile banking
The text points out the quantum jump in retail electronic payments. It specifically states that "Mobile banking has grown more than four time during 2019 to 2021 and became most preferred way of banking." This growth is attributed to the preference for mobile transactions over other payment systems, which saw a decline or nominal growth.

May/June 2025

38. According to a research study by Boston Consulting Group, what percentage of total banking revenue worldwide is brought in by the retail segment?
(A) Nearly 25%

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(B) Nearly 60%
(C) Approximately 40%
(D) Over 75%

Ans :

(B) Nearly 60%
The text cites a research study by the Boston Consulting Group which found that the retail segment is a critical source of revenue and profitability for major banks. The study concluded that the retail segment "brings in nearly 60% of the total banking revenue worldwide," and this dominance is expected to continue.

Oct/Nov 2019

39. What is described as the most important prerequisite for retail banking to succeed, binding customers to their bank?
(A) The availability of a large number of conveniently located physical branches
(B) The presence of an efficient and secure delivery mechanism
(C) Offering the market's highest interest rates on all types of deposits
(D) Aggressive marketing campaigns across all major advertising channels

Ans :

(B) The presence of an efficient and secure delivery mechanism
The text explicitly states, "It is the most important pre-requisite for retail banking to succeed." This efficient delivery mechanism is defined by the quality of services, fairness in pricing, promptness, and the ability to deliver products safely, securely, and cost-effectively by leveraging technology, which collectively enhance the customer experience.

May/June 2007

40. What is the stated compound annual growth rate (CAGR) for the number of households banking online over the last five years?
(A) Over 20%
(B) Over 15%
(C) Over 10%
(D) Over 25%

Ans :

(A) Over 20%
The provided source text, which discusses direct banking as the fastest-growing channel, explicitly mentions the growth statistic. It states that "the number of households banking online have grown at a compound annual growth rate (CAGR) of over 20%" over the last five years, highlighting the rapid adoption of digital channels.

Oct/Nov 2006

41. What must banks invest in heavily to ensure 'product appropriateness' for specific customer groups?
(A) Branch renovation and expansion
(B) Print media advertising
(C) Data analytics
(D) Hiring more branch staff

Ans :

(C) Data analytics
To achieve product appropriateness, the text advises that banks "must invest heavily into data analytics." This allows them to assess the appropriate products and services for specific customer groups by understanding their needs and requirements. This data-driven approach is crucial for both attracting new customers and retaining existing ones in a competitive environment.

May/June 2016

42. What is a 'credit scoring model' used for in the context of retail banking?
(A) To assess the credit worthiness of borrowers for greater transparency in lending
(B) To determine the appropriate pricing of deposit products for various customer segments
(C) To evaluate the annual performance of bank employees in the retail lending segment
(D) To rank different competing banks based on their customer service quality index scores

Ans :

(A) To assess the credit worthiness of borrowers for greater transparency in lending
The text defines a credit scoring model as a statistical technique used for assessing the credit worthiness of borrowers. Its purpose is to bring greater transparency and efficiency to the lending process by combining financial characteristics to predict the behavior of new applicants, often based on the performance of existing borrowers and credit information reports.

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Oct/Nov 2005

43. The creation of separate authorities for enforcing fair market conduct and protecting financial consumers is a culmination of what growing focus by regulators?
(A) Encouraging banks to maximize their profits from retail customer relationships
(B) Ensuring banks are adequately protected from frivolous consumer complaints and litigation
(C) Developing conviction that consumers' rights are being adequately protected by institutions
(D) Promoting the use of a "poor subsidising the rich" model for product pricing

Ans :

(C) Developing conviction that consumers' rights are being adequately protected by institutions
The text explains that regulators are increasingly intolerant of unfair market practices. This has led to a greater focus on ensuring that customers' rights are protected, which has "culminated in creation of separate authorities for enforcing fair market conduct and for protection of financial consumers." This reflects a global shift towards stronger consumer protection.

May/June 2008

44. Which of the following is cited as a "disquieting feature" in the pricing of products and services by banks?
(A) Non-discriminatory and risk-based pricing
(B) The poor subsidising the rich
(C) Competitive and value-added pricing
(D) Transparent and logical pricing

Ans :

(B) The poor subsidising the rich
The text points out several challenges in pricing, including arbitrary and illogical charges. It specifically identifies "the poor subsidising the rich" as a disquieting feature. For retail banking to be successful, it argues that pricing should be non-discriminatory, risk-based, competitive, and value-added, directly opposing the mentioned disquieting practice.

Oct/Nov 2012

45. What is identified as a crucial input for the success of retail banking, the absence of which makes risk-based pricing very difficult?
(A) A large network of physical branches
(B) An aggressive sales team
(C) An appropriate and granular Management Information System (MIS)
(D) High-value corporate client relationships

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Ans :

(C) An appropriate and granular Management Information System (MIS)
The text highlights the "Inadequacy of MIS" as a major challenge. It states that accurate, consistent, and granular information is a crucial input for success. Without granular data on segmental revenues and profits, banks find it very difficult to implement risk-based pricing, making an appropriate MIS essential for a successful retail banking rollout.

May/June 2019

46. Besides products on the asset and liability side, banks also need to be mindful about KYC due diligence for what other category of offerings?
(A) Services offered exclusively through the bank's mobile banking application
(B) High-value cash transactions conducted at off-site bank ATMs
(C) Internal training programs for bank staff on new product launches
(D) Third-party products they sell from their premises or delivery channels

Ans :

(D) Third-party products they sell from their premises or delivery channels
The text emphasizes the importance of understanding and appreciating KYC requirements in all manifestations. It specifically extends this need beyond the bank's own asset and liability products, stating that "Banks would also need to be mindful about the KYC due diligence for the third-party products that they sell from their premises/through their delivery channel."

Oct/Nov 2020

47. A bank has recently witnessed a rise in fraudulent transactions through its mobile banking app, involving identity theft and SIM swaps. To counter this, the bank must quickly put in place lasting technology-based solutions. This scenario addresses which specific challenge discussed in the chapter?
(A) Effects of disruptive new technologies
(B) Inadequacy of MIS

(C) The declining cost of incremental deposits
(D) The rise of young Indian professionals

Ans :

(A) Effects of disruptive new technologies
This case directly relates to the challenge titled "Effects of disruptive new technologies." The text explains that with the proliferation of alternate delivery channels, the scope for fraudulent transactions via impersonations, identity thefts, and sim swaps has grown. It stresses the need for banks to implement technology-based solutions to thwart such efforts.

May/June 2005

48. What is the approximate credit penetration from the banking system in India, described as "abysmally low"?
(A) About 30%
(B) About 10%
(C) About 50%
(D) About 70%

Ans :

(B) About 10%
While discussing the potential for continuing growth, the text points out that despite efforts for financial inclusion, credit penetration in India remains very low. It explicitly states that "the credit penetration from the banking system in the country is abysmally low at about 10%, " indicating a huge untapped market for retail lending.

Oct/Nov 2010

49. The challenge for retail banking in India is described not as finding new customers or markets, but more of a:
(A) Regulatory issue
(B) Mind-set issue
(C) Technological issue
(D) Capital adequacy issue

Ans :

(B) Mind-set issue
The text posits that given the huge potential for growth, the challenge for retail banks is not a lack of customers or markets. Instead, it is framed as "more of a mind-set issue," where banks need to be convinced about financial inclusion as a viable, profit-making business proposition and pursue it with missionary zeal.

May/June 2012

50. According to A. T. Kearney, a global management consulting firm, India was identified as which most attractive retail destination among 30 emergent markets?
(A) Second
(B) First
(C) Third
(D) Fifth

Ans :

(A) Second
When discussing India's growth as an economic superpower, the text cites a specific finding from the consulting firm A. T. Kearney. It states that the firm "identified India as the 'second most attractive retail destination' of the 30 emergent markets," highlighting the country's significant potential in the retail sector, including retail banking.

Oct/Nov 2025

51. Which of the following is NOT listed as a reason contributing to the growth of the retail banking segment?
(A) The documented rise of the Young Indian Professionals demographic
(B) The increasing purchasing power and aspirations of the middle class
(C) A consistent and sustained increase in interest rates on retail loans
(D) Financial market reforms combined with advancement in information technology

Ans :

(C) A consistent and sustained increase in interest rates on retail loans
The text explicitly lists a "Decline in interest rates" as a key reason for the growth of retail credit, as it generates demand. An increase in interest rates would likely have the opposite effect. The other options, including the rise of young professionals, increasing purchasing power, and financial reforms, are all mentioned as growth drivers.

May/June 2017

52. How does retail credit as a 'volume driven business' differ from corporate lending in terms of risk?
(A) Risk is concentrated on a few high-value clients.

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(B) Risk is higher due to larger individual loan amounts.
(C) Risk is completely eliminated through government insurance.
(D) Risk is widely dispersed among a large customer base.

Ans :

(D) Risk is widely dispersed among a large customer base.
The text contrasts retail credit with corporate lending by describing it as a volume-driven business. This model "ensures that the business is widely dispersed among a large customer base unlike in the case of corporate lending, where the risk may be concentrated on a selected few," highlighting the benefit of risk diversification.

Oct/Nov 2018

53. What advantage has the emergence of ATMs as an alternative delivery channel provided to banks with smaller networks?
(A) It allowed them to focus exclusively on serving high net-worth individuals in urban centers.
(B) It reduced the overall need for heavy investment in technological support and automation.
(C) It enabled them to offset traditional disadvantages by significantly increasing their reach and spread.
(D) It successfully increased foot traffic in their traditional branches for high-value transactions.

Ans :

(C) It enabled them to offset traditional disadvantages by significantly increasing their reach and spread.
The text explains that ATMs, as an alternative channel, have facilitated low-cost transactions and reduced branch traffic. Crucially, it "enables banks with small networks to offset the traditional disadvantages by increasing their reach and spread," allowing them to compete more effectively with banks that have larger physical footprints.

May/June 2009

54. What was the average economic growth rate of India during the 10 years following 1992, as mentioned in the text?
(A) 5.8%
(B) 6.8%
(C) 7.8%
(D) 8.8%

Ans :

(B) 6.8%
The source text, discussing economic prosperity as a driver for the consumer boom, provides a specific figure for India's economic performance. It clearly states that "during the 10 years after 1992, India's economy grew at an average rate of 6.8%, " a performance that few other countries could match.

Oct/Nov 2007

55. What proportion of India's population is stated to be below 35 years of age, indicating vast potential for growth in consumption?
(A) 40%
(B) 50%
(C) 60%
(D) 70%

Ans :

(D) 70%
While discussing changing consumer demographics, the text highlights India's demographic advantage. It specifies that "India is one of the countries having highest proportion (70%) of the population below 35 years of age (young population)," which points to a vast potential for both qualitative and quantitative growth in consumption and, by extension, retail banking.

May/June 2023

56. The BRIC report from Goldman-Sachs predicted a bright future for Brazil, Russia, India, and China, mentioning what specific point as an important positive factor for India?
(A) Its Indian demographic advantage
(B) Its advanced manufacturing sector
(C) Its stable political environment
(D) Its vast natural resources

Ans :

(A) Its Indian demographic advantage
The text references the Goldman-Sachs BRIC report in the context of growth drivers. It states that this report "mentioned Indian demographic advantage as an important positive factor for India." This aligns with other points in the chapter

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about the country's large and young population being a key driver for the retail market.

Oct/Nov 2014

57. The decline in which income source for banks has made retail business a good vehicle for profit maximization?
(A) Fee-based income from corporate clients
(B) Income from foreign exchange services
(C) Treasury income
(D) Income from credit card services

Ans :

(C) Treasury income
The text explains that "Treasury income of the banks, which had strengthened the bottom lines of banks for the past few years, has been on the decline during the last two years." In this scenario of declining treasury income, retail business is presented as an attractive alternative for profit maximization and income diversification.

May/June 2010

58. From what high range in 1995-96 have the interest rates on retail loans declined?
(A) 16% – 18%
(B) 14% – 16%
(C) 12% – 14%
(D) 18% – 20%

Ans :

(A) 16% – 18%
The provided text directly addresses the historical change in interest rates for retail loans. It explicitly states that the rates have declined "from a high of 16% – 18% in 1995–96" to the current, much lower band. This significant reduction in borrowing costs is cited as a major contributor to the growth of retail credit.

Oct/Nov 2024

59. The ability of banks to quote lower interest rates on housing and other retail loans is enabled by the declining cost of incremental deposits. These low-cost deposits contribute to what proportion of their total funds?
(A) More than 1/4
(B) More than 1/2
(C) More than 2/3
(D) More than 1/3

Ans :

(D) More than 1/3
The text discusses the "Declining cost of incremental deposits" as a factor enabling lower lending rates. It mentions that low-cost (saving bank) and no-cost (current account) deposits are available with the bank and that "These deposits contribute to more than 1/3 of their funds [deposits]," providing a cheaper source of funds.

May/June 2015

60. How have the repayment terms for retail loans changed, giving more financial leverage to people?
(A) Repayment periods have been significantly shortened from 15-30 years to 5-7 years
(B) Repayment periods have been extended from a short 5-7 years to a longer 15-30 years
(C) Repayment is now only allowed in a single, large bullet payment at loan maturity
(D) Repayment periods have become non-negotiable and are now fixed for all loan types

Ans :

(B) Repayment periods have been extended from a short 5-7 years to a longer 15-30 years
The text highlights a "Change of Terms of Loans" as a growth driver. It contrasts the past with the present, stating that banks now offer loans with terms ranging from 15/30 years, "as compared to the repayment period allowed earlier which was restricted to 5-7 years only," thus giving more financial leverage and affordability to borrowers.

Oct/Nov 2011

61. What factor has led to a shift where "Now People Want to Save Less and Spend More"?
(A) Increasing tax rates on savings
(B) Government mandates to increase spending
(C) Falling interest rates on savings
(D) A decline in the availability of consumer goods

Ans :

(C) Falling interest rates on savings
The text, under the "Scope of Retail Banking in India," points out that more than 90% of savings come from the household sector. It then directly links falling interest rates to a behavioral shift, stating, "Falling interest rates have resulted in a shift. 'Now People Want to Save Less and Spend More.'"

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May/June 2020

62. What is the concept of "experiential banking" expected to be driven by?
(A) The expansion of brick-and-mortar branches
(B) A reduction in the number of digital products
(C) An increase in traditional paper-based transactions
(D) The integration of Application Programming Interfaces (APIs)

Ans :

(D) The integration of Application Programming Interfaces (APIs)
The text identifies that a major challenge for banks is consolidating data and understanding transaction contexts. To address this, banks have started using Application Programming Interfaces (APIs). It concludes that "With the integration of the APIs, experiential banking will be the new norm for the banking industry," enabling a niche digital experience.

Oct/Nov 2015

63. What is Banking as a Service (BaaS)?
(A) An approach facilitating fintechs and NBFCs to integrate with a bank's system using APIs
(B) A model where banks outsource all of their core banking operations to external service providers
(C) A tiered service where customers pay a recurring monthly fee for access to basic banking features
(D) A new physical branch model focused exclusively on providing personalized financial advisory services

Ans :

(A) An approach facilitating fintechs and NBFCs to integrate with a bank's system using APIs
The text defines Banking as a Service (BaaS) as a new end-to-end approach developed from the digital ecosystem. It "facilitates fintech companies and other third party organisations like NBFCs to integrate with a bank's system employing APIs," allowing them to build innovative financial services upon the bank's regulated infrastructure.

May/June 2013

64. Based on the FIS report cited by CNBC, what was the percentage increase in mobile banking traffic in early April 2020?
(A) 200%
(B) 85%
(C) 50%
(D) 100%

Ans :

(B) 85%
The provided source quotes a CNBC report on findings from Fidelity National Information Services (FIS). The quote clearly distinguishes between two metrics: it states there was a "200% increase in new mobile banking registrations" and that "mobile banking traffic ballooned 85%." The question specifically asks for the traffic increase.

Oct/Nov 2021

65. According to a 2019 Financial Health Network study, what was the attitude of smartphone users over the age of 50 towards using their devices for banking needs pre-pandemic?
(A) They were eager early adopters and promoters of mobile banking apps
(B) Two-thirds were reluctant to use their personal devices for banking needs
(C) They exclusively used their mobile devices for high-value investment transactions
(D) Half of them had already completely replaced branch visits with app usage

Ans :

(B) Two-thirds were reluctant to use their personal devices for banking needs
The text contrasts the pandemic-era adoption of digital services with pre-pandemic attitudes. It cites a 2019 study by the Financial Health Network which found that in pre-pandemic times, "two-thirds of smartphone users over the age of 50 were reluctant to use their devices for their banking needs," highlighting a significant behavioral shift.

May/June 2024

66. Which of the following is highlighted as the most important benefit of digital banking?
(A) The convenience of 24 x 7 service availability from any location
(B) Personalized financial advice from AI-powered virtual assistants
(C) Access to higher interest rates on savings and deposit accounts
(D) A significant reduction in the need for multi-factor authentication

Ans :

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(A) The convenience of 24 x 7 service availability from any location

The text summarizes the benefits of digital banking and explicitly states, "The most important benefit is the Convenience." It elaborates that with the support of a mobile app or net-banking, customers can avail banking services 24 × 7, which is a primary advantage over the fixed hours of traditional branch banking.

Oct/Nov 2008

67. A small business owner frequently makes payments to suppliers and receives payments from customers. The owner finds traditional bank transfers slow and costly, with settlement taking several days. Which emerging technology has the potential to solve these challenges by offering faster transaction times, more transparency, and lower costs?

(A) Artificial Intelligence (AI)
(B) Banking as a Service (BaaS)
(C) Blockchain
(D) QR Codes

Ans :

(C) Blockchain

The scenario describes the classic problems of traditional money transfers, such as slow settlement and high costs. The text directly addresses this by stating that Blockchain has the potential to solve these challenges. It offers "faster transaction times, more transparency, and lower costs, changing the money transfer equation," which is precisely what the business owner needs.

May/June 2006

68. According to Forbes, which of the following is NOT a benefit of Blockchain technology?

(A) It records and validates every transaction.
(B) It is decentralized.
(C) It can speed up the verification of trades and payments.
(D) It requires third-party authorization.

Ans :

(D) It requires third-party authorization.

The text, citing Forbes, lists the benefits of Blockchain. Among them are that it records and validates transactions and that it is decentralized. Crucially, it states that Blockchain "does not require third-party authorization," which is one of its key features, making option (B) the incorrect statement and thus the correct answer.

Oct/Nov 2017

69. Based on the forecast from Autonomous Research, by what percentage are AI technologies expected to reduce bank operating costs by the year 2030?

(A) 15%
(B) 20%
(C) 22%
(D) 30%

Ans :

(C) 22%

The provided source text discusses the impact of Artificial Intelligence (AI) on banking. It includes a specific forecast from Autonomous Research, stating that "by 2030, AI technologies will allow banks to reduce operating costs by 22%." This highlights the significant efficiency gains and cost-saving potential attributed to the adoption of AI.

May/June 2011

70. Match the AI & Data Science application in banking (List-I) with its correct description (List-II).

	List-I (Application)		**List-II (Description)**
P.	Anomaly Detection	1.	Predicting customer behavioral trends for strategic marketing campaigns.
Q.	Customer Analytics	2.	Using machine learning algorithms for high-precision automated trades
R.	Risk Management	3.	Detecting fraudulent or illegal insider trading activities within markets
S.	Algorithmic Trading	4.	Predicting market trends and assessing customer creditworthiness.

(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-3, R-2, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-1, R-4, S-3

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Ans :

(A) P-3, Q-1, R-4, S-2
According to the text: Anomaly Detection is used for "detecting illegal insider trading" (P-3). Customer Analytics involves "Predicting customer behavioral trends for strategizing the right marketing mix" (Q-1). Risk Management includes "identifying and predicting market trend... customer creditworthiness" (R-4). Algorithmic Trading uses machine learning for "High precise trades on the market" (S-2).

Oct/Nov 2022

71. A bank's cybersecurity team is creating a new awareness program. They want to focus on the single biggest cause of security breaches. According to the text, what should be the central theme of their training for staff and customers?
(A) The technical vulnerabilities present in the bank's primary network firewall
(B) The competitive threat posed by unregulated fintech startup companies
(C) The importance of upgrading to the latest smartphone models for security
(D) The fact that "humans are the weakest link" due to the risk of human error

Ans :

(D) The fact that "humans are the weakest link" due to the risk of human error
The case describes a need to focus cybersecurity training on the biggest threat. The text explicitly states, "A chain is as strong as the weakest link... because 'humans are the weakest link'. That is why 95% of security breaches are blamed to on human error." Therefore, training on awareness and fraud prevention for staff and customers is crucial.

May/June 2018

72. The term "Instant Payment" refers to the ability to make payments within what timeframe?
(A) A matter of seconds
(B) A matter of hours
(C) Within one business day
(D) Within two business days

Ans :

(A) A matter of seconds
The text defines the concept of "Instant Payment" and its importance in the modern payment landscape. It explicitly states that the term refers to "the ability to make payments within a matter of seconds," which is highly beneficial for both parties in a transaction and a significant improvement over traditional settlement times.

Oct/Nov 2009

73. What was the approximate volume of mobile wallet transactions in the financial year 2021?
(A) About 1 billion
(B) About 2 billion
(C) About 4 billion
(D) About 8 billion

Ans :

(C) About 4 billion
When discussing the rise of payment innovations and the replacement of physical wallets with mobile wallets, the text provides a specific data point. It states, "The volume of mobile wallet transactions was about 4 billion in the financial year 2021," underscoring the rapid adoption and high usage of this payment method.

May/June 2022

74. Which payment scheme in the E.U. is mentioned as having significantly brought down settlement times?
(A) SEPA (Single Euro Payments Area)
(B) FedNow
(C) UPI
(D) PSD2

Ans :

(A) SEPA (Single Euro Payments Area)
The text provides examples of successful instant payment deployments. It highlights that the "SEPA (Single Euro Payments Area) scheme in the E.U. has significantly brought down settlement times," and that the SEPA Instant Credit Transfer Scheme further reduced it, showcasing a key innovation in the European payment landscape.

Oct/Nov 2013

75. The U.S. Federal Reserve's announced "FedNow" service will process individual credit transfers valued at what amount or less within seconds?
(A) $10,000 or less
(B) $50,000 or less
(C) $100,000 or less
(D) $25,000 or less

Ans :

(D) $25,000 or less

NODIA

The text discusses various international payment innovations. It mentions the U.S. Federal Reserve's announcement of FedNow, specifying that "This service will process individual credit transfers valued at $25000 or less within seconds." This provides a clear value threshold for the instant payment service being introduced in the United States.

May/June 2025

76. What is the primary reason mentioned for decreasing financial brand loyalty, which has loosened the rope that banks have on their customer data?

(A) The rise of big tech companies like Apple and Google entering financial services
(B) The implementation of open banking regulations and streamlined switching services
(C) The increasing complexity and difficulty of understanding modern banking products
(D) The consistent decline in customer service quality at traditional physical branches

Ans :

(B) The implementation of open banking regulations and streamlined switching services
The text attributes the rise of big tech in banking to a key factor. It states, "The primary reason is the decreasing financial brand loyalty due to open banking, which has loosened the rope that banks have on their customer data." Open banking mandates and streamlined switching services make it easier for customers to move between providers.

Oct/Nov 2019

77. The PSD2 guidelines in Europe have given tech companies the ability to do what?

(A) Acquire banking licenses automatically
(B) Issue their own currency
(C) Be bank-like without banks
(D) Take over the central banking functions

Ans :

(C) Be bank-like without banks
The text discusses how big tech firms are entering the financial services space. It explicitly mentions that "Open Banking tools made available from PSD2 guidelines give these companies the ability to be bank-like without banks." This means they can offer financial services by leveraging bank infrastructure without becoming fully regulated banks themselves.

May/June 2007

78. What is the recommended approach for banking and financial institutions when dealing with the rise of big tech companies in the financial sector?

(A) View them as a threat and lobby for stricter regulations against them.
(B) Ignore their presence and focus on traditional banking methods.
(C) Acquire the big tech companies to eliminate competition.
(D) Embrace partnerships and collaboration with them.

Ans :

(D) Embrace partnerships and collaboration with them.
The text concludes its discussion on the rise of big tech by offering a strategic recommendation. It suggests, "Instead of viewing big tech companies as a threat, banking and financial institutions should embrace partnerships and collaboration with them." This collaborative approach is seen as more likely to succeed than outright competition.

Oct/Nov 2006

79. A bank is planning its strategy for the next five years. It observes that its younger customers value quick, seamless digital experiences over traditional branch interactions. To remain relevant and earn their trust, which of the following actions aligns best with the concluding advice in the chapter?

(A) Creating transparent, seamless digital experiences and respecting customer data privacy
(B) Investing heavily in renovating its physical branches to make them more visually appealing
(C) Focusing on short-term profits by increasing the fees on its most popular digital services
(D) Limiting technology investments to the bare minimum required by financial services regulators

Ans :

(A) Creating transparent, seamless digital experiences and respecting customer data privacy
The scenario reflects the shift in customer preferences towards digital. The chapter's concluding advice is to "listen to your customers,

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earn their trust by creating transparent and seamless experiences, respect their need for privacy... and always choose to make tech investments to align with what people want." This directly supports the action in option (B).

May/June 2016

80. Which of the following statements correctly summarizes an advantage of retail banking mentioned in the 'Let Us Sum Up' section?
(A) Risk is high as the client base is small.
(B) The business model is stable with less volatility.
(C) Income is relatively lower as spreads are narrow.
(D) Customer loyalty is weak, leading to high attrition.

Ans :

(B) The business model is stable with less volatility.
The 'Let Us Sum up' section lists several advantages. It mentions "Risk is less as client base is large," "Income is relatively more as spreads are more," and "Customer loyalty will be strong." It also states it is a "Stable model with less volatility in business as the client base is very large," making option (D) a correct summary.

Oct/Nov 2005

81. Which of the following is identified as a disadvantage of retail banking in the 'Let Us Sum Up' section?
(A) The small clientele requires only minimal monitoring and management
(B) Delinquencies are relatively higher in unsecured retail loans and credit cards
(C) The overall cost of servicing a large number of accounts is relatively low
(D) There is a very low potential for cross-selling additional products to customers

Ans :

(B) Delinquencies are relatively higher in unsecured retail loans and credit cards
The summary section lists disadvantages to balance the advantages. It explicitly mentions that "Delinquencies relatively higher in unsecured retail loans like Personal Loans and Credit Card Receivables" is a key disadvantage. The other options describe the opposite of what is stated as disadvantages (huge clientele, high servicing cost) or advantages (high cross-selling potential).

May/June 2008

82. The penetration level of retail banking in India is described as being what in comparison to other Asian countries like China, Malaysia, and Thailand?
(A) Very low
(B) On par
(C) Very high
(D) Slightly higher

Ans :

(A) Very low
In the summary section discussing the Indian context, the text makes a direct comparison with other Asian nations. It states, "The penetration level of retail banking in India is still very low as compared to the other Asian countries like China, Malaysia, Thailand, etc.," indicating significant room for future growth.

Oct/Nov 2012

83. Which of the following is NOT listed as a pandemic-sparked retail banking trend for 2021 and beyond?
(A) Blooming of Digital Banking
(B) Rapid Adaptation of Blockchain
(C) A resurgence of traditional branch-based banking
(D) Rise of Big Tech in Banking Industry

Ans :

(C) A resurgence of traditional branch-based banking
The text lists several key trends shaping the future of retail banking, all of which are driven by technology and digitalization. These include Digital Banking, Blockchain, AI, Cybersecurity, Payment Innovations, and the Rise of Big Tech. A resurgence of traditional branch banking is contrary to the direction of these trends described in the chapter.

May/June 2019

84. Which statement best describes the shift from a 'Product Centric' to a 'Customer Centric' approach in banking?
(A) Banks focus on selling a single, highly profitable product to all customers.
(B) Banks develop a wide variety of standardized products to offer more choice.
(C) Banks prioritize the needs of corporate customers over individual customers.
(D) Banks focus on developing customized

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products to suit the specific needs of varied customers.

Ans :

(D) Banks focus on developing customized products to suit the specific needs of varied customers.
The text explains this shift as a response to increased competition. Moving to a customer-centric approach means banks must "develop products customized to suit the needs of variety of customers" and "satisfy all the financial needs by offering products to suit the customers' requirements," rather than pushing standardized, pre-existing products.

Oct/Nov 2020

85. Assertion (A): Retail banking is often considered less risky than corporate banking.
Reason (R): In retail banking, loan amounts are relatively small and spread across a large, diversified customer base.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The text states that a key advantage of retail banking is that the "client base will be large and therefore risk is spread across the customer base." It also notes that "Credit risk tends to be well diversified, as loan amounts are relatively small." Thus, both statements are true, and the reason correctly explains the assertion.

May/June 2005

86. A high net-worth individual, Mr. Kumar, is looking for exclusive banking services, including wealth management, investment advisory, and customized loan products that are not available to the general public. Which specific segment of retail banking would cater to his needs?
(A) Mass retail banking, which provides standardized products for the general public
(B) Class retail banking (Private Banking), which offers customized, exclusive services
(C) Entrepreneurial banking, which is focused on financing new business ventures
(D) MSME banking, which caters to the needs of micro and small enterprises

Ans :

(B) Class retail banking (Private Banking), which offers customized, exclusive services
The scenario describes a client with needs for specialized, customized services. The text defines 'class retail banking' as the stage where a bank offers customized products and services targeted at a niche customer segment, the high net worth individuals. It further states that retail banking focused solely on this niche segment may also be termed private banking.

Oct/Nov 2010

87. Identify the correct statements regarding the evolution of banking in India.
1. Before the 1960s, banking was primarily focused on corporate clients.
2. Foreign banks like Citibank pioneered the credit card market in the early 1980s.
3. Public Sector Banks completely ignored the retail segment until the 2000s.
4. New generation private banks in the 1990s leveraged technology for a new approach to retail banking.

(A) 1 and 2 only
(B) 1, 2, and 4 only
(C) 3 and 4 only
(D) All of the above

Ans :

(B) 1, 2, and 4 only
The text confirms that pre-1960s banking was corporate-focused (1), Citibank spurred the retail space with credit cards in the early 1980s (2), and new private banks used technology from the 1990s (4). Statement (3) is incorrect, as the text mentions that some PSBs like IOB, BOI, and BOB had already developed retail asset and card products earlier.

May/June 2012

88. Based on the RBI data provided, which of the following retail asset classes experienced a negative percentage growth rate in the year 2021?
(A) Educational Loans
(B) Housing Loans
(C) Vehicle/ Auto Loans
(D) Other Retail / Personal Loans

Ans :

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(A) Educational Loans
The table "I. Growth Rate of Retail Assets of the Banking System" shows the "Percentage growth over the previous year" for various assets. For the year 2021, the value listed for Educational Loans is -0.3, indicating a negative growth, while all other listed asset classes in the options showed positive growth during that period.

Oct/Nov 2025

89. Which of the following is NOT a challenge for retail banking as discussed in the chapter?
(A) The use of arbitrary and illogical pricing for many banking services
(B) The inadequacy of a granular Management Information System (MIS)
(C) A lack of potential for future growth due to complete market saturation
(D) Managing the security risks arising from disruptive new technologies

Ans :

(C) A lack of potential for future growth due to complete market saturation
The chapter repeatedly emphasizes that retail banking in India has huge potential for growth and is far from saturated, citing low credit penetration. The other options—arbitrary pricing, inadequate MIS, and risks from new technologies—are all explicitly listed and discussed as significant challenges faced by banks in the retail segment.

May/June 2017

90. A bank wants to improve its lending decisions for personal loans and make the process more efficient and transparent. The bank decides to implement a statistical technique that combines several financial characteristics of applicants to predict their repayment behavior. What is this bank implementing?
(A) A credit scoring model
(B) A new Management Information System (MIS)
(C) A consumer protection policy
(D) A Banking as a Service (BaaS) platform

Ans :

(A) A credit scoring model
The scenario describes the exact function of a credit scoring model as explained in the text. A credit scoring model is defined as "a statistical technique that combines several financial characteristics to predict the behaviour of new applicants" and is used for "assessing the credit worthiness of borrowers to bring in greater transparency and efficiency."

Oct/Nov 2018

91. Which of the following statements about the future of retail banking is INCORRECT based on the trends discussed?
(A) Artificial Intelligence is expected to help banks significantly reduce their operating costs
(B) Blockchain technology can offer faster and more transparent payment settlement processes
(C) Big Tech firms are increasingly entering the financial services space, often via partnerships
(D) Physical branches will become the primary and preferred channel for all customer interactions

Ans :

(D) Physical branches will become the primary and preferred channel for all customer interactions
The chapter clearly indicates that the future of banking is digital. It highlights the "Blooming of Digital Banking" and the decline of brick-and-mortar reliance, especially post-pandemic. The text suggests alternate channels will be dominant, making the idea of physical branches becoming the primary channel for all interactions an incorrect representation of the future trends.

May/June 2009

92. What was a key difference in the approach of new generation private sector banks in the 1990s compared to the then-existing banks?
(A) They focused solely on corporate banking and ignored the retail customer segment
(B) They had the advantage of leveraging modern technology right from the start of operations
(C) They actively avoided using new technology in order to reduce their operational costs
(D) They targeted only the rural and semi-urban customer segments to avoid competition

Ans :

(B) They had the advantage of leveraging modern technology right from the start of operations
The text explicitly states that the new generation private sector banks that entered in the early 1990s

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had a distinct advantage. "With the advantage of technology right from start, these banks had a clear positioning for retail banking and aggressively strategized for creating new markets for the retail segment," which set them apart.

Oct/Nov 2007

93. What is the primary function of an Application Programming Interface (API) in the context of modern banking as described in the chapter?

(A) To provide a physical user interface for customers at bank branches and kiosks
(B) To completely replace the need for a bank's Core Banking Solutions (CBS) infrastructure
(C) To offer multiple data aggregation platforms, increasing operational efficiencies
(D) To conduct manual, paper-based audits of all high-value banking transactions

Ans :

(C) To offer multiple data aggregation platforms, increasing operational efficiencies
The chapter explains that banks are facing challenges in consolidating data. It states that banks have started using "Application Programming Interface (APIs) which offer multiple data aggregation platforms, increase in operational efficiencies and niche digital experience." This facilitates models like BaaS and experiential banking by allowing systems to communicate and share data.

May/June 2023

94. The growth of retail lending in emerging economies is attributed to several factors. Which of the following is a key supply side factor mentioned?

(A) Increasing purchasing power of the middle class
(B) More liberal attitudes toward personal debt
(C) Rise of the young Indian professionals
(D) Rapid advances in information technology

Ans :

(D) Rapid advances in information technology
The text attributes the growth of retail lending to "rapid advances in information technology, the evolving macro-economic environment, financial market reforms, and several micro-level demand and supply side factors." Among the options, advances in IT represent a key supply-side factor, enabling banks to create and deliver products more efficiently to a mass market.

Oct/Nov 2014

95. A bank is designing a new auto loan product. To make it highly competitive, the bank decides to include financing for the cost of registration and insurance in the loan amount, and also offers a complimentary credit card with a waived first-year fee. This strategy is an example of which driver of retail banking growth?

(A) Providing financial liquidity and ensuring easy/affordable access to credit
(B) The impact of changing consumer demographics and psychographics
(C) Acting as a primary engine of overall national economic growth
(D) The complete automation of the banking process from start to finish

Ans :

(A) Providing financial liquidity and ensuring easy/affordable access to credit
The case illustrates two distinct but related growth drivers mentioned in the text. "Easy and affordable access" is exemplified by financing associated costs like registration and insurance. "Financial Liquidity" is shown by making financing attractive through value-added services like a free credit card, bundling multiple offerings to attract customers to the retail loan.

May/June 2010

96. From the perspective of a bank's balance sheet, retail banking targets:

(A) Only the asset side through loans and mortgages.
(B) Both the liability side (deposits) and the asset side (loans).
(C) Only the liability side through deposits.
(D) Neither the asset nor the liability side, focusing on off-balance sheet items.

Ans :

(B) Both the liability side (deposits) and the asset side (loans).
The definition of retail banking clearly states that it "involves offering of products of both sides of the balance sheet." It specifies fixed deposits and savings accounts on the liability side and mortgages and various loans (personal, housing, etc.) on the asset side, demonstrating its comprehensive nature covering both core banking functions.

NODIA

Oct/Nov 2024

97. Identify the INCORRECT statement regarding the characteristics of retail banking.

(A) Services are sometimes extended to small- and medium-sized business clients
(B) The delivery model is restricted to physical, off-site channels like ATMs
(C) It offers a plethora of liability, asset, and third-party service products
(D) It is primarily focused towards the mass-market consumer segment

Ans :

(B) The delivery model is restricted to physical, off-site channels like ATMs
The text states that the delivery model is "both physical and virtual, i.e., services are extended through branches and also through technology driven electronic off-site delivery channels like ATMs, Internet Banking, Mobile Banking, Phone Banking, etc." The statement that it is restricted to only physical off-site channels is therefore incorrect.

May/June 2015

98. What is the primary benefit of deploying scoring models in the context of retail lending?

(A) It minimizes the subjective element and fast-tracks the credit decision-making process
(B) It increases the subjective element and personal judgment in the decision-making process
(C) It is used exclusively for marketing campaigns and new customer demographic segmentation
(D) It helps in determining the appropriate interest rates for various bank deposit products

Ans :

(A) It minimizes the subjective element and fast-tracks the credit decision-making process
The text highlights that in the context of retail lending, the "deployment of scoring models would minimize the subjective element and thereby fast-track the decision-making process." This use of objective, data-driven models helps in making credit assessments more consistent, efficient, and less reliant on individual judgment, improving the overall lending process.

Oct/Nov 2011

99. The analysis of payment system indicators reveals a decline or nominal growth in the volume and value of some payment systems. What is the primary reason cited for this trend?

(A) A significant increase in the use of physical cash for everyday transactions
(B) New regulatory restrictions being placed on older, established payment systems
(C) The strong preference for mobile transactions by a growing number of customers
(D) A general slowdown in overall economic activity and consumer spending

Ans :

(C) The strong preference for mobile transactions by a growing number of customers
The text, after highlighting the massive growth in mobile banking, directly addresses the impact on other systems. It states, "Decline/ nominal growth in the volume and value of other payment systems is due to preferred mobile transactions by the customers." This indicates a clear shift in consumer behavior towards mobile-first banking and payments.

May/June 2020

100. Which of the following are considered pandemic-sparked retail banking trends for 2022 and beyond?

1. Growth in Digital Banking
2. Rapid Adaptation of Blockchain
3. Artificial Intelligence and Data Science
4. Rise of Big Tech in the Banking Industry
5. A return to traditional, in-person banking methods

(A) 1 and 2 only
(B) 1, 2, 3 and 4 only
(C) 5 only
(D) All of the above

Ans :

(B) 1, 2, 3 and 4 only
The chapter concludes by listing several "pandemic-sparked retail banking trends worth keeping an eye on for 2021 and beyond." This list includes the blooming of digital banking, adaptation of blockchain, AI, cybersecurity, payment innovations, and the rise of big tech. A return to traditional methods is contrary to these forward-looking, technology-driven trends.

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CHAPTER 2

Retail Banking: Role Within The Bank Operations

Oct/Nov 2014

1. According to the different approaches followed by banks for their retail banking activities, what factor primarily influences the choice of models and processes?

(A) The geographical location of the bank's headquarters and its primary service area.

(B) The importance attached to the retail banking space in the overall corporate business strategy.

(C) The number of employees in the retail banking division and their overall skill levels.

(D) The specific regulatory framework and compliance requirements of the country's central bank.

Ans :

(B) The importance attached to the retail banking space in the overall corporate business strategy.

The models and processes adopted by a bank for retail banking are dependent on the significance given to retail banking within the bank's overall corporate strategy. This includes the projected business expected from retail banking in the future, which shapes the structural approach the bank decides to implement for its retail operations.

May/June 2021

2. The business models for retail banking exhibit variations across different categories of banks. Which of the following are the three main approaches identified for structuring retail banking operations?

(A) Strategic Business Unit (SBU) Approach, Departmental Approach, and Integrated Approach.

(B) Centralised Approach, Decentralised Approach, and Hybrid Approach.

(C) Product-centric Approach, Customer-centric Approach, and Market-centric Approach.

(D) Aggressive Approach, Conservative Approach, and Balanced Approach.

Ans :

(A) Strategic Business Unit (SBU) Approach, Departmental Approach, and Integrated Approach.

The primary approaches for organizing retail banking activities are the Strategic Business Unit (SBU) Approach, which creates autonomous divisions; the Departmental Approach, which organizes by function; and the Integrated Approach, which is part of the overall business plan. These three frameworks represent the main structural choices available to banks for their retail operations.

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Oct/Nov 2009

3. What is the fundamental principle of the Strategic Business Unit (SBU) approach in the context of retail banking?

(A) To centralize all retail banking functions under a single corporate head for unified control.

(B) To merge retail banking completely with corporate banking operations to achieve synergies.

(C) To divide the business on lines of autonomous Strategic Business Units for focused management.

(D) To outsource all non-core retail banking activities to third-party vendors to reduce costs.

Ans :

(C) To divide the business on lines of autonomous Strategic Business Units for focused management.

The Strategic Business Unit (SBU) approach is fundamentally about organizational structure. It aims at dividing the entire business into distinct, autonomous divisions known as SBUs. This allows for focused management and strategic alignment of different business lines, such as retail banking, treating them as separate entities

with specific objectives and performance metrics within the larger corporation.

May/June 2023

4. Which of the following characteristics best describes a Strategic Business Unit (SBU)?

(A) A large, functionally rigid division focused primarily on implementing organization-wide cost-cutting measures.

(B) An internal advisory committee that provides strategic guidance but has no direct control over operational outcomes.

(C) A temporary, cross-functional project team assembled to execute a single, time-bound marketing campaign.

(D) An autonomous division, flexible for agility and large enough to control its performance factors.

Ans :

(D) An autonomous division, flexible for agility and large enough to control its performance factors.

A Strategic Business Unit (SBU) is defined as an autonomous division within a larger corporation. Its key characteristics include being small enough to maintain flexibility and agility, yet simultaneously large enough to exercise significant control over most of the factors that influence its long-term performance, enabling it to operate effectively as a self-contained business.

May/June 2007

5. How are Strategic Business Units (SBUs) typically defined within a banking organization?

(A) As cost centres focused on minimizing operational expenditure across the bank.

(B) As administrative centres responsible for company-wide regulatory compliance.

(C) As profit centres that focus on specific product offerings and market segments.

(D) As support centres that provide back-office services to all corporate divisions.

Ans :

(C) As profit centres that focus on specific product offerings and market segments.

In the context of banking, Strategic Business Units (SBUs) are defined as profit centres. Their primary role is to generate revenue and profit by concentrating on particular product offerings and targeting specific market segments. This focus allows them to tailor strategies and operations to their designated area, driving profitability for that specific business line.

Oct/Nov 2025

6. A research study on banking models revealed that the SBU approach is adopted by certain banks in India. Which group of banks was found to be in alignment by following this model?

(A) Old generation private sector banks and major regional cooperative banking institutions.

(B) A top public sector bank, new generation private sector banks, and foreign banks.

(C) All public sector banks across the country, from the largest national banks to smaller regional ones.

(D) Only major foreign banks that operate exclusively within Tier-1 metropolitan cities in India.

Ans :

(B) A top public sector bank, new generation private sector banks, and foreign banks.

A research study covering about 10 banks found that the Strategic Business Unit (SBU) approach was adopted by one of the top five public sector banks based in Mumbai. This bank's business model was in alignment with the models followed by new generation private sector banks and foreign banks, which also predominantly use the SBU structure.

May/June 2012

7. For which type of banks has the Strategic Business Unit (SBU) been the preferred business model from their inception to ensure a clear focus on business objectives?

(A) Old generation private sector banks.

(B) Public Sector Banks.

(C) Regional Rural Banks.

(D) New generation private sector banks.

Ans :

(D) New generation private sector banks.

In new generation private sector banks, the business model is characterized by its clarity. These banks established Strategic Business Units (SBUs) right from their inception. The primary reason for this was to maintain a sharp and unwavering focus on their business objectives, allowing for specialized management and accountability for different segments of their operations.

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Oct/Nov 2018

8. The demarcation of a business line as a Strategic Business Unit (SBU) in foreign banks is closely associated with which management process?
(A) Management by Objectives (MBO).
(B) Total Quality Management (TQM).
(C) Six Sigma Process.
(D) Business Process Re-engineering (BPR).

Ans :

(A) Management by Objectives (MBO).
In foreign banks, the designation of a division as a Strategic Business Unit (SBU) is more than just a structural change; it is considered a Management by Objectives (MBO) process. This implies that the SBU is treated as a modular strategy specifically designed to achieve targeted profits, aligning its operations with predefined objectives.

May/June 2019

9. In the SBU model, what provision exists if the retail plans fail to translate into results as per the defined objectives?
(A) A mandatory merger process with another, more successful Strategic Business Unit.
(B) An automatic and significant budgetary increase for marketing and sales initiatives.
(C) A provision to dismantle or "knockdown" the modular unit if it consistently underperforms.
(D) A compulsory and immediate change in the top management team of the SBU.

Ans :

(C) A provision to dismantle or "knockdown" the modular unit if it consistently underperforms.
The SBU model, particularly as a modular strategy, includes a contingency for underperformance. There is a specific provision to "knockdown the module" if the retail plans do not achieve the targeted objectives. This means the bank can decide to dismantle or significantly restructure the SBU if it fails to meet its profit and business goals.

Oct/Nov 2006

10. What is the primary basis for division in the Departmental Approach to organizing a business?
(A) On the basis of functions that various teams perform.
(B) On the basis of strategic business lines or product segments.
(C) On the basis of geographical regions or sales territories.
(D) On the basis of customer demographics and profiles.

Ans :

(A) On the basis of functions that various teams perform.
Unlike the Strategic Business Unit (SBU) approach which divides a business along strategic or product lines, the Departmental Approach organizes the institution based on the different functions performed by various teams. This leads to the creation of specialized departments such as accounting, marketing, finance, and planning, each handling a specific operational area.

Oct/Nov 2010

11. Which of the following is a key characteristic of the Departmental Approach within an organization?
(A) It promotes a flat organizational structure with no clear hierarchy or chain of command.
(B) It focuses on creating autonomous, profit-driven business units for each product line.
(C) It is primarily adopted by small, agile businesses that require operational flexibility.
(D) It segregates functions like accounting, marketing, and finance into separate departments.

Ans :

(D) It segregates functions like accounting, marketing, and finance into separate departments.
The Departmental Approach is a specialized functional framework that segregates the organization's various functions into distinct departments. These typically include departments for accounting, marketing, finance, planning, and others. Each of these departments is structured with its own manager and a clear chain of command, creating a functionally divided organizational hierarchy for operations.

May/June 2005

12. Which category of banks in India has generally adopted the Departmental Approach as their retail banking business model?
(A) New generation private sector banks.
(B) Public Sector Banks.
(C) Foreign banks.
(D) Payment banks.

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Ans :

(B) Public Sector Banks.
Public Sector Banks (PSBs) in India have generally adopted the Departmental Approach for their retail banking business model. This choice indicates that their approach is more of a general one, where retail banking is treated as one of several business models within the larger organizational structure, rather than a highly focused, separate business unit.

Oct/Nov 2022

13. How is the retail banking business model typically structured within Public Sector Banks that use the Departmental Approach?
(A) As a standalone Strategic Business Unit (SBU) that possesses full financial and operational autonomy.
(B) As a separate subsidiary company that focuses exclusively on retail products and associated services.
(C) As a part of the overall business plan, not as a distinct and separate departmental activity.
(D) As a joint venture established with a foreign bank to leverage specific international expertise.

Ans :

(C) As a part of the overall business plan, not as a distinct and separate departmental activity.
In Public Sector Banks and old generation private sector banks using a more conservative model, retail banking is not established as a separate, standalone entity like an SBU. Instead, the business model for retail banking is built as an integrated component of the bank's overall business plan, lacking the autonomy of a distinct division.

May/June 2018

14. Which type of businesses typically adopts the Integrated Approach for their operations?
(A) Large multinational corporations with diverse business lines.
(B) Government-owned enterprises in monopolistic markets.
(C) Only technology startups in their initial growth phase.
(D) Smaller businesses with less complex operational needs.

Ans :

(D) Smaller businesses with less complex operational needs.
The Integrated Approach is a business model that is usually adopted by smaller businesses. This approach is suitable for organizations of a smaller scale where creating separate, specialized divisions or departments may not be feasible or efficient. It focuses on a cohesive and unified operational strategy to manage the entire business holistically.

Oct/Nov 2016

15. What is the underlying assumption of the Integrated Approach regarding risk and profitability?
(A) A unified business reduces risk and increases profitability through economies of scale.
(B) Having separate entities for each business line increases profitability through specialization.
(C) Risk is best managed by outsourcing all non-core business activities to third parties.
(D) Profitability is maximized by focusing on a single, high-margin product or service.

Ans :

(A) A unified business reduces risk and increases profitability through economies of scale.
The core assumption behind the Integrated Approach is that a unified business structure is more advantageous than having separate entities for each business line. It posits that this cohesive model helps in reducing overall risk and enhancing profitability by leveraging economies of scale, rather than through the specialization of separate, siloed business divisions.

May/June 2014

16. What is the primary basis for which banks generally structure their retail banking models?
(A) On a cost-minimization platform.
(B) On a positioning platform.
(C) On a regulatory compliance platform.
(D) On a human resources platform.

Ans :

(B) On a positioning platform.
Banks typically structure their retail banking models primarily on a positioning platform. This means that their strategies are formulated based on specific positioning objectives, such as aiming to be in the top slot among all banks or within their peer group. The desired market position

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heavily influences the design of the business model.

Oct/Nov 2007

17. For old generation private banks, what is the basis for their positioning platform?
(A) Aggressive marketing campaigns and rapid branch network expansion.
(B) The overall business plan, in line with their existing size and scale.
(C) A primary focus on international markets and foreign exchange services.
(D) Emulating the business models of foreign banks without any modification.

Ans :

(B) The overall business plan, in line with their existing size and scale.
In the case of old generation private banks, the positioning platform is very clearly defined. It is based on the bank's overall business plan and is carefully aligned with the institution's existing size and scale. This approach is more conservative and ensures that strategic positioning is realistic and sustainable given the bank's capabilities.

May/June 2025

18. What are the key advantages that new generation private banks leverage to achieve their desired positioning objectives?
(A) Technology, strategy, customer and business initiatives, and aggressive positioning.
(B) A large network of rural branches and a long-standing focus on agricultural lending.
(C) A conservative approach to technology adoption and new business initiatives.
(D) A reliance on government support and a brand history spanning several decades.

Ans :

(A) Technology, strategy, customer and business initiatives, and aggressive positioning.
New generation private banks enjoy several advantages that help them pursue their goal of being in the top slot. These include the strategic use of advanced technology, well-defined corporate strategy, strong customer and business initiatives, and an overall aggressive positioning in the market. These factors enable them to compete effectively and grow rapidly.

Oct/Nov 2019

19. How do foreign banks typically approach their business models, as contrasted with the positioning objectives of domestic banks?
(A) They primarily focus on positioning to be in the top three among their peer groups.
(B) They adopt the same conservative models as old generation private sector banks.
(C) They go by purely business objectives like customer, business, and profit targets.
(D) They build their model based on the size and scale of their overall Indian operations.

Ans :

(C) They go by purely business objectives like customer, business, and profit targets.
Foreign banks generally do not structure their models around positioning objectives, such as being the top bank. Instead, their approach is driven purely by business objectives. They focus on achieving specific customer acquisition, business volume, and profit targets. Performance against these metrics dictates the continuation or cessation of their business lines or models.

May/June 2009

20. What decisive action do foreign banks take if a business segment, or the retail banking model itself, proves to be unprofitable?
(A) They increase investment in the unprofitable segment in an attempt to turn it around.
(B) They seek a government bailout or special subsidies to cover the operational losses.
(C) They merge the unprofitable segment with a more profitable one to mask the losses.
(D) They exit the retail banking segment or the specific unprofitable business line.

Ans :

(D) They exit the retail banking segment or the specific unprofitable business line.
Foreign banks operate with a strong focus on profitability based on their business objectives. If a particular business model or a segment within it is not profitable, they are known to take a decisive call. This often involves exiting that specific retail banking segment or even a particular business line within the model.

Oct/Nov 2011

21. Which bank is cited as a classic example of entering the retail banking space aggressively

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in the late 1990s and later quitting because the segment was not profitable?
(A) Citibank.
(B) American Express Bank.
(C) BNP Paribas.
(D) Axis Bank.

Ans :

(C) BNP Paribas.
BNP Paribas serves as a classic example of a foreign bank's strategic flexibility. It entered the Indian retail banking space with great aggression during the late 1990s, including a significant brand-building exercise. However, after determining that the segment was not sufficiently profitable relative to the business generated, the bank decided to quit the space.

May/June 2010

22. American Express Bank took a significant strategic decision regarding its business in India after a review of its viability. What was this decision?
(A) To expand its credit card business aggressively into new tier-2 and tier-3 cities.
(B) To come out of their credit card business as it was not meeting performance targets.
(C) To merge its credit card business with another bank to form a new joint venture.
(D) To rebrand its entire credit card portfolio to appeal to a younger demographic.

Ans :

(B) To come out of their credit card business as it was not meeting performance targets.
After conducting a thorough review and taking stock of the viability of its operations, American Express Bank made the strategic decision to exit its credit card business in India. This action is another example of how foreign banks assess their business lines based on performance and profitability, and are willing to withdraw from non-performing segments.

Oct/Nov 2024

23. Which bank recently quit its retail business in India as part of a global strategy, with its operations being acquired by Axis Bank?
(A) BNP Paribas.
(B) American Express Bank.
(C) Standard Chartered Bank.
(D) Citibank.

Ans :

(D) Citibank.
A recent example of a foreign bank realigning its operations is Citibank. As part of its global strategy, Citibank decided to quit the retail business in India. Subsequently, its consumer banking business, including credit cards, retail banking, wealth management, and consumer loans, was acquired by Axis Bank, marking a significant shift in the market.

May/June 2017

24. Which of the following is NOT one of the three main approaches for retail banking business models?
(A) Customer-Centric Approach.
(B) Strategic Business Unit (SBU) Approach.
(C) Departmental Approach.
(D) Integrated Approach.

Ans :

(A) Customer-Centric Approach.
The three main structural approaches for retail banking are the Strategic Business Unit (SBU) Approach, the Departmental Approach, and the Integrated Approach. While being customer-centric is a strategic orientation, it is not one of the fundamental business model structures discussed, which are concerned with how the bank is organized to deliver its services.

Oct/Nov 2005

25. Identify the incorrect statement regarding the Strategic Business Unit (SBU) approach.
(A) SBUs are autonomous divisions that are designed to be flexible and responsive.
(B) New generation private banks and foreign banks predominantly use the SBU model.
(C) SBUs are defined as cost centres focused on organization-wide expense control.
(D) An SBU can be a business unit of a large corporation or a business in itself.

Ans :

(C) SBUs are defined as cost centres focused on organization-wide expense control.
This statement is incorrect because Strategic Business Units (SBUs) are explicitly defined as profit centres, not cost centres. Their primary purpose is to generate revenue and profit by focusing on specific product offerings and market segments. The other statements correctly

NODIA

describe the autonomous, flexible nature of SBUs and their adoption by certain bank types.

May/June 2020

26. Which of the following statements is correct regarding the Departmental Approach?

(A) It is a specialised functional approach that segregates departments like finance and marketing.

(B) It is primarily used by new generation private banks for its focused, profit-centric nature.

(C) It divides the organization based on strategic business lines such as retail and corporate banking.

(D) It treats retail banking as a separate, standalone SBU with full P&L responsibility.

Ans :

(A) It is a specialised functional approach that segregates departments like finance and marketing.

The Departmental Approach is accurately described as a specialised functional approach. It structures the organization by segregating its functions into distinct departments such as accounting, marketing, finance, and planning. This model is generally adopted by Public Sector Banks in India and is considered a more general approach compared to the SBU model.

Oct/Nov 2015

27. Match List-I (Bank Type) with List-II (Typical Business Model/Approach).

List-I

P. Public Sector Banks in India

Q. New Generation Private Banks

R. Smaller Businesses

S. Foreign Banks

List-II

1. Integrated Approach
2. SBU model with defined business focus
3. Departmental Approach
4. SBU model set up since inception

(A) P-2, Q-3, R-4, S-1

(B) P-3, Q-1, R-4, S-2

(C) P-4, Q-2, R-1, S-3

(D) P-3, Q-4, R-1, S-2

Ans :

(D) P-3, Q-4, R-1, S-2

Public Sector Banks in India generally use the Departmental Approach (P-3). New generation private banks set up SBUs from inception for clear focus (Q-4). Smaller businesses typically adopt the cohesive Integrated Approach (R-1). Foreign banks follow the SBU model but with a very defined business and profit focus, distinct from others (S-2).

May/June 2013

28. Consider the following statements about retail banking business models:

1. The choice of a business model is independent of the bank's corporate strategy.
2. The Integrated Approach is typically used by large, multinational banks.

Which of the statements given above is/are correct?

(A) 1 only

(B) Neither 1 nor 2

(C) 2 only

(D) Both 1 and 2

Ans :

(B) Neither 1 nor 2

Both statements are incorrect. The choice of a business model is heavily dependent on the bank's overall corporate strategy and the importance it attaches to retail banking. The Integrated Approach is not used by large banks; it is typically adopted by smaller businesses due to its cohesive, unified nature which is suitable for smaller-scale operations.

Oct/Nov 2021

29. Consider the following statements:

1. New generation private banks use aggressive positioning to achieve their objectives.
2. Old generation private banks' positioning is based on their size and scale.
3. Foreign banks' strategies are primarily driven by positioning objectives.

Which of the statements given above are correct?

(A) 2 and 3 only

(B) 1 and 3 only

(C) 1 and 2 only

(D) 1, 2 and 3

Ans :

(C) 1 and 2 only

Statements 1 and 2 are correct. New generation private banks are known for their aggressive positioning, while old generation private banks adopt a more conservative positioning based on their size and scale. Statement 3 is incorrect because foreign banks are driven by business

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and profit objectives rather than positioning objectives like domestic banks.

May/June 2024

30. Assertion (A): Foreign banks may decide to exit a retail banking segment in a particular country.
Reason (R): Their strategies are based on achieving specific business and profit targets, and they will withdraw from a line of business if it is not profitable.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that foreign banks may exit a retail segment is true, as exemplified by BNP Paribas and Citibank. The reason provided is also true; foreign banks' strategies are guided by business and profit targets. The reason directly explains the assertion, as the failure to meet these targets is the primary cause for such strategic exits.

Oct/Nov 2008

31. What is the most significant disadvantage of the Departmental Approach as described for retail banking?
(A) It is considered a general approach, not a focused business model for retail.
(B) It is too expensive to implement for large banks due to functional duplication.
(C) It creates too much autonomy for individual department heads, leading to conflict.
(D) It is only suitable for very small businesses and cannot scale effectively.

Ans :

(A) It is considered a general approach, not a focused business model for retail.
The text indicates that the Departmental Approach, while organizing functions neatly, is more of a general one. For retail banking, this means it is treated as just one of many business areas rather than a focused, strategic priority. This lack of focus is its main drawback compared to the SBU model, which is designed for strategic emphasis.

May/June 2006

32. A new generation private bank in India wants to establish a dominant position in the retail market within three years. Based on the typical models and strategies, which of the following would be its most likely course of action?
(A) Adopt a conservative, departmental approach to build a stable foundation before pursuing growth.
(B) Leverage technology and aggressive positioning, structuring its retail operations as an SBU for focus.
(C) Emulate the foreign bank model by focusing on profit targets with a quick-exit contingency plan.
(D) Follow the model of old generation banks, basing its strategy on its current size and scale to ensure stability.

Ans :

(B) Leverage technology and aggressive positioning, structuring its retail operations as an SBU for focus.
New generation private banks are characterized by their clear vision to be in the top slot. To achieve this, they use technology, aggressive positioning, and customer-centric initiatives. Structuring their retail operations as a Strategic Business Unit (SBU) aligns with this goal by providing the necessary focus and autonomy to drive growth and achieve objectives.

Oct/Nov 2017

33. Which of the following is NOT a factor influencing the business models adopted by banks for retail banking?
(A) The bank's overall business strategy.
(B) The number of competing banks in the market.
(C) Projections for future business from retail.
(D) The bank's corporate objectives.

Ans :

(B) The number of competing banks in the market.
The text states that business models are adopted keeping in mind the bank's own overall business strategy, projections for future business, business mix, and corporate objectives. While the competitive landscape is important for strategy, the fundamental choice of the internal structural model (SBU, Departmental, etc.) is driven by

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these internal factors, not directly by the number of competitors.

May/June 2008

34. The concept of a "positioning platform" is used as a basis for structuring retail banking models. What is a primary goal of such a platform?

(A) To be the best or among the top three players in the market or peer group.
(B) To ensure complete compliance with all current and future banking regulations.
(C) To minimize the operational cost of delivering all retail products and services.
(D) To standardize products and services across all customer segments for efficiency.

Ans :

(A) To be the best or among the top three players in the market or peer group.
Banks that structure their retail models on a positioning platform do so with a clear competitive goal. This objective is often to establish the bank as the best in its class or to secure a position among the top three players, either within a specific peer group or across the entire industry, driving its strategic decisions.

Oct/Nov 2013

35. The positioning platform serves a crucial role in the bank's marketing strategy. What is this role?

(A) It dictates the specific pricing of all retail loan and deposit products.
(B) It is used solely for designing advertising campaigns for mass media.
(C) It acts as a barometer for all decisions that impact the marketing strategy.
(D) It defines the hiring criteria for the marketing and sales department.

Ans :

(C) It acts as a barometer for all decisions that impact the marketing strategy.
The positioning platform is not just a static goal; it is a dynamic tool. It is used as a barometer for all decisions that have an impact on the bank's marketing strategy. This ensures that marketing efforts, product development, and channel strategies are all consistently aligned with the bank's desired market position and overall strategic direction.

May/June 2015

36. Based on the excerpt, "In new generation private sector banks, the business model is very clear. They had set up Strategic Business Units (SBU) since inception in order to have clear focus on business objectives. In foreign banks also, SBU is the business model followed by all with defined business focus," what is the common rationale for both new generation private banks and foreign banks to adopt the SBU model?

(A) To align with the common practices of public sector banks.
(B) To facilitate easier mergers and acquisitions in the future.
(C) To reduce operational costs through greater centralization.
(D) To have a clear focus on specific business objectives.

Ans :

(D) To have a clear focus on specific business objectives.
The provided text explicitly states that new generation private sector banks set up SBUs "in order to have clear focus on business objectives." It then adds that for foreign banks, the SBU model is followed "with defined business focus." This highlights that the shared motivation for both types of banks is achieving clarity and focus on business goals.

Oct/Nov 2012

37. Identify the correct pair from the following options.

(A) Departmental Approach : Adopted by new-gen private banks.
(B) Integrated Approach : Suited for large multinational corporations.
(C) Positioning Platform : Basis for structuring models in many domestic banks.
(D) SBU Approach : Characterized by functional segregation.

Ans :

(C) Positioning Platform : Basis for structuring models in many domestic banks.
The pairing in (C) is correct. Many domestic banks, particularly new generation private banks, structure their retail models on a positioning platform to achieve a top market rank. The other pairs are incorrect: the Departmental approach is used by PSBs, the Integrated approach by

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small businesses, and the SBU approach is characterized by business-line division, not functional segregation.

May/June 2011

38. Identify the incorrect pair from the following options.

(A) Foreign Banks : Strategy driven by business and profit targets.

(B) Public Sector Banks : Adoption of the Strategic Business Unit (SBU) model.

(C) Old-gen Private Banks : Conservative approach based on size and scale.

(D) New-gen Private Banks : Use of technology and aggressive positioning.

Ans :

(B) Public Sector Banks : Adoption of the Strategic Business Unit (SBU) model.

This pair is incorrect. Public Sector Banks in India have generally adopted the Departmental Approach for their retail banking operations, which is considered a more general and less focused model. The Strategic Business Unit (SBU) model is more characteristic of new generation private banks and foreign banks, which seek a more focused, profit-centric structure.

Oct/Nov 2020

39. An SBU is described as being "small enough to be flexible". What does this flexibility enable the SBU to do?

(A) To change its core business focus on a weekly or monthly basis.

(B) To operate without any oversight from the parent corporation.

(C) To ignore long-term performance factors in favor of short-term gains.

(D) To adapt quickly to market changes and evolving customer needs.

Ans :

(D) To adapt quickly to market changes and evolving customer needs.

The flexibility of a Strategic Business Unit (SBU) implies its ability to be agile and responsive. Being "small enough to be flexible" allows the division to adapt quickly to shifts in the market environment, evolving customer preferences, and competitive pressures. This agility is a key advantage of the SBU structure over more rigid, monolithic organizational forms.

May/June 2022

40. An SBU is also described as being "large enough to exercise control over most of the factors affecting its long-term performance". What does this imply?

(A) The SBU has sufficient resources and authority to manage its key success factors.

(B) The SBU has control over macroeconomic factors like national inflation rates.

(C) The SBU is typically too large to be managed effectively by a single leader.

(D) The SBU can dictate the corporate strategy of the entire parent bank.

Ans :

(A) The SBU has sufficient resources and authority to manage its key success factors.

This characteristic means the Strategic Business Unit (SBU) is not merely a small, dependent team. It possesses the necessary scale, resources, and managerial authority to influence and control critical aspects of its own operations, such as product development, marketing, and channel management. This control is essential for it to be accountable for its long-term performance.

Oct/Nov 2023

41. A large Public Sector Bank (PSB) in India is reviewing its retail banking structure. Its current model treats retail as one of many functions, alongside treasury and corporate credit, managed by different functional heads. Which business model is this PSB currently following?

(A) Strategic Business Unit (SBU) Approach.

(B) Integrated Approach.

(C) Departmental Approach.

(D) Hybrid Approach.

Ans :

(C) Departmental Approach.

The scenario describes a structure where the organization is segregated into functions like retail, treasury, and corporate credit, each with its own management. This is the hallmark of the Departmental Approach, which is a specialised functional model. This approach is generally adopted by Public Sector Banks in India for their retail banking business.

May/June 2016

42. Recent entrants in the private banking sector have clear positioning strategies for their growth.

NODIA

What is the typical time frame mentioned for their action plans to achieve objectives?
(A) In the next two to three years.
(B) Within the next six months.
(C) Over the next decade.
(D) Within the current financial year.

Ans :

(A) In the next two to three years.
The text notes that even recent entrants into the private banking sector have clear positioning strategies. They define where they want to be in the market "going forward, in the next two/three years" and create suitable action plans to achieve these medium-term objectives, highlighting their focused and forward-looking approach to growth and market positioning.

Oct/Nov 2009

43. Which of the following is the most appropriate description of the business model of old generation private sector banks?
(A) Aggressive and technology-driven.
(B) Based on a standalone SBU for retail.
(C) Purely driven by profit targets with quick exit strategies.
(D) More conservative and based on scale.

Ans :

(D) More conservative and based on scale.
The approach of old generation private sector banks is explicitly described as being "more conservative." Their business model for retail banking is built as part of the overall business plan, in line with their size and scale. This contrasts with the aggressive, SBU-focused model of new generation private banks or the profit-target-driven model of foreign banks.

May/June 2023

44. Consider the following statements about different banking approaches:
1. The SBU approach aims at dividing the business on functional lines.
2. The Departmental approach is a specialised functional approach.

Which of the statements given above is/are correct?
(A) 1 only
(B) 2 only
(C) Both 1 and 2
(D) Neither 1 nor 2

Ans :

(B) 2 only
Statement 2 is correct; the Departmental approach segregates the organization based on functions like accounting and marketing. Statement 1 is incorrect because the SBU approach divides the business on strategic or business lines (like retail banking as a whole), not functional lines. This distinction is the core difference between the two models.

Oct/Nov 2018

45. What deeper aspects of retail banking are revealed when one analyzes the models in terms of products, processes, delivery channels, and technology?
(A) The universal similarity of all retail banking models across different bank types.
(B) The lack of importance of technology in the operations of modern banking.
(C) The inter-dependency of these elements for the success of the total model.
(D) The declining relevance of physical delivery channels like bank branches.

Ans :

(C) The inter-dependency of these elements for the success of the total model.
A deeper analysis of retail banking models, considering elements like products, processes, delivery channels, and technology, reveals crucial insights. It highlights the real depth of retail banking, the relevance of each element to the model's efficiency, and most importantly, the inter-dependency among these elements for the overall success of the chosen business model.

May/June 2007

46. A foreign bank operating in India notices that its credit card division is consistently failing to meet its profit targets for three consecutive years, despite a strong brand presence. Based on the typical behavior of foreign banks, what is the most likely strategic outcome?
(A) The bank will double the marketing budget for the credit card division to boost sales.
(B) The bank will petition the central bank for special subsidies for its credit card business.
(C) The bank will merge the credit card division with its corporate banking arm to hide losses.
(D) The bank will take a call on the business line and likely exit the credit card segment.

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Ans :

(D) The bank will take a call on the business line and likely exit the credit card segment.
Foreign banks are primarily driven by business and profit objectives. If a business line is consistently unprofitable, they are known to take decisive action. As seen in the example of American Express Bank, they would take stock of the viability and likely exit the unprofitable credit card business rather than continue to fund its losses.

Oct/Nov 2025

47. Consider the following three statements:
1. The SBU approach is adopted by at least one top public sector bank in Mumbai.
2. The Integrated Approach is primarily for smaller businesses to achieve scale benefits.
3. The Departmental Approach is characterized by its focused, profit-centric nature.

Which of the above statements is/are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2 and 3

Ans :

(A) 1 and 2 only
Statements 1 and 2 are correct. A research study confirms a top PSB uses the SBU model, and the Integrated Approach is indeed for smaller businesses seeking scale. Statement 3 is incorrect; the Departmental Approach is described as a general model, not a focused or profit-centric one. The SBU model fits the description of being focused and profit-centric.

May/June 2012

48. Assertion (A): The business model for retail banking in a Public Sector Bank is generally not a standalone SBU.
Reason (R): PSBs typically adopt the Departmental Approach where retail banking is built as a part of the overall business plan.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that retail banking in a PSB is not a standalone SBU is true. The reason correctly explains why: PSBs generally use the Departmental Approach. In this model, retail banking is integrated into the bank's overall business plan rather than being set up as a separate, autonomous profit centre like an SBU.

Oct/Nov 2014

49. Based on the excerpt, "Foreign banks generally do not go by positioning objectives but purely on business objectives. They go by customer, business and profit targets. They take a call on the business model itself or one segment of the overall model. If the same is not profitable, they exit the retail banking segment itself or exit a particular business line within the model," what is the primary driver for strategic decisions, including market exit, for foreign banks?
(A) Achieving the top rank in national customer satisfaction surveys.
(B) The performance of the model or segment against profit targets.
(C) The need to match the product offerings of all domestic banks.
(D) The bank's global brand positioning and marketing strategy.

Ans :

(B) The performance of the model or segment against profit targets.
The excerpt clearly states that foreign banks operate based on "purely business objectives," specifically citing "customer, business and profit targets." It further explains that if a model or segment is "not profitable," they will exit. This shows that performance against profit and business targets is the paramount driver for their strategic decisions.

May/June 2019

50. What differentiates the business model of new generation private banks from that of old generation private banks?
(A) New generation banks have a clear vision for top-slot positioning and use aggressive strategies.
(B) New generation banks are characterized by a more conservative and less clearly defined strategic vision.

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(C) Old generation banks were pioneers in adopting the SBU model from their initial inception.
(D) Old generation banks focus more heavily on implementing new technology and customer-centric initiatives.

Ans :

(A) New generation banks have a clear vision for top-slot positioning and use aggressive strategies. The key differentiator is the strategic intent and execution. New generation private banks have a clear vision of achieving a top-slot position and aggressively use advantages like technology and customer initiatives. In contrast, old generation private banks are described as more conservative, with a positioning platform tied to their existing size and scale.

Oct/Nov 2006

51. The process where a business model is treated as a modular strategy for achieving targeted profits with a provision for its removal is a feature of which approach?
(A) The Integrated Approach.
(B) The Departmental Approach.
(C) The Strategic Business Unit (SBU) Approach.
(D) The Conservative Approach.

Ans :

(C) The Strategic Business Unit (SBU) Approach. This description relates to the Strategic Business Unit (SBU) approach, especially as practiced in foreign banks. The model is viewed as a modular strategy tied to a Management by Objectives (MBO) process. The "provision to knockdown the module" if targeted profits are not met is a distinct feature of this flexible, performance-oriented approach.

May/June 2021

52. Which of the following best describes the Integrated Approach?
(A) A model that segregates every business line into a separate, autonomous unit.
(B) A model that focuses solely on functional departments like finance and marketing.
(C) A model exclusively used by foreign banks to maximize their global profits.
(D) A model that combines all socio-economic aspects in a cohesive approach to tackle business problems.

Ans :

(D) A model that combines all socio-economic aspects in a cohesive approach to tackle business problems.
The Integrated Approach is defined as one that combines all socio-economic aspects of a business. It promotes a cohesive, unified strategy to address business challenges. This holistic method is typically adopted by smaller businesses, assuming that a unified structure enhances profitability through scale and reduces risk compared to having separate business entities.

Oct/Nov 2010

53. A small, newly established cooperative bank is deciding on its organizational structure. It has limited resources and wants a simple, unified structure to manage risk and leverage economies of scale. Which of the three main business models would be most suitable for this bank?
(A) The Strategic Business Unit (SBU) Approach.
(B) The Departmental Approach.
(C) The Integrated Approach.
(D) The Foreign Bank Model.

Ans :

(C) The Integrated Approach.
The Integrated Approach is explicitly mentioned as being "usually adopted by smaller businesses." Its core assumption is that a unified business reduces risk and increases profitability through scale, which perfectly aligns with the needs of a small cooperative bank with limited resources. Creating separate SBUs or formal departments would be overly complex and inefficient for its scale.

May/June 2005

54. The decision by Citibank to exit its retail business in India was part of what larger context?
(A) A specific directive from the Indian banking regulator to limit its operations.
(B) Its inability to compete effectively with public sector banks on pricing.
(C) A part of its broader global strategy to realign its business focus.
(D) The acquisition of its parent company by another major financial entity.

Ans :

NODIA

(C) A part of its broader global strategy to realign its business focus.

The text explicitly states that Citibank's decision to quit its retail business in India was "as a part of their global strategy." This indicates the move was not solely a reaction to local market conditions but was driven by a broader, worldwide strategic realignment by the parent organization, a common practice for multinational banks.

Oct/Nov 2022

55. What is the relationship between a bank's positioning objectives and its strategies?

(A) Strategies are developed independently of and without reference to positioning objectives.

(B) Positioning objectives are a minor component of the bank's overall strategy.

(C) Positioning objectives are only relevant for foreign banks, not domestic ones.

(D) Strategies are formulated and implemented based on the positioning objectives.

Ans :

(D) Strategies are formulated and implemented based on the positioning objectives.

There is a direct and hierarchical relationship between these two concepts. Banks first establish their positioning objectives, such as aiming to be a top-three player. Then, their strategies—covering products, marketing, technology, and more—are formulated and implemented specifically to achieve those predefined positioning objectives. The objectives guide the strategy.

May/June 2018

56. Which of the following is an example of a functional department in the Departmental Approach?

(A) Planning Department.

(B) Retail Banking SBU.

(C) North India Region.

(D) High Net-worth Individuals Segment.

Ans :

(A) Planning Department.

The Departmental Approach segregates the organization into departments based on functions. The text lists accounting, marketing, finance, and planning as examples of such departments. A "Retail Banking SBU" or "High Net-worth Individuals Segment" represents a business-line division (SBU approach), while "North India Region" is a geographical division.

Oct/Nov 2016

57. All of the following are key inputs for adopting a retail banking business model EXCEPT:

(A) The bank's overall business strategy.

(B) Projections for future business and growth.

(C) The personal preference of the incumbent CEO.

(D) The bank's overarching corporate objectives.

Ans :

(C) The personal preference of the incumbent CEO.

The adoption of a business model is a strategic decision based on objective factors like the overall business strategy, future business projections, business mix, and corporate objectives. While a CEO's leadership is important, the choice of a fundamental structural model is driven by these institutional factors, not personal preference, to ensure long-term viability and alignment.

May/June 2014

58. Consider the following statements about the SBU approach.

1. It is a Management by Objectives (MBO) process.
2. It is a modular strategy for achieving targeted profits.
3. It has a provision to be knocked down if objectives are not met.
4. It is the preferred model for old generation private banks.

Which of the statements are correct?

(A) 1, 2, and 3 only.

(B) 1, 2, and 4 only.

(C) 1, 3, and 4 only.

(D) 2, 3, and 4 only.

Ans :

(A) 1, 2, and 3 only.

Statements 1, 2, and 3 accurately describe the SBU approach, particularly in the context of foreign banks. It is linked to MBO, functions as a modular strategy for profits, and can be dismantled if it fails. Statement 4 is incorrect; the SBU model is characteristic of new-gen private banks and foreign banks, not old-gen private banks which are more conservative.

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Oct/Nov 2007

59. Bank 'X' is a foreign bank that entered India with a full-fledged brand-building exercise for its retail loan products. After a few years, it finds that the profit margins are much lower than its global benchmark. What is the most probable action Bank 'X' will take, based on the provided examples?

(A) It will continue the business to protect its established brand image at all costs.
(B) It will request a strategic partnership with a public sector bank to share the risk.
(C) It will switch from an SBU model to a Departmental model to reduce costs.
(D) It will quit the retail loan business segment due to underperformance against targets.

Ans :

(D) It will quit the retail loan business segment due to underperformance against targets.
This case mirrors the example of BNP Paribas, which entered aggressively but quit when the segment was found to be unprofitable. Foreign banks prioritize business and profit objectives over brand presence or market share alone. Therefore, if the profit targets are not met, the most likely action is to exit that specific business line or segment.

May/June 2025

60. The acquisition of Citibank's Indian retail business by Axis Bank is an example of:

(A) A foreign bank significantly expanding its operational footprint in India.
(B) A strategic exit by a foreign bank and consolidation in the domestic market.
(C) A merger between a public sector bank and a private sector bank.
(D) A hostile takeover of a foreign bank's assets by a domestic competitor.

Ans :

(B) A strategic exit by a foreign bank and consolidation in the domestic market.
This event represents two interconnected strategic moves. First, it is a strategic exit by a foreign bank (Citibank) from a specific market segment (Indian retail) as part of its global plan. Second, it leads to consolidation in the domestic market, as a local player (Axis Bank) acquires these assets to strengthen its own position.

Oct/Nov 2019

61. Match List-I (Concept) with List-II (Description).
List-I
P. Departmental Approach
Q. Integrated Approach
R. SBU Approach
S. Positioning Platform
List-II
1. Autonomous, profit-focused division
2. Basis for setting competitive goals like being 'top three'
3. Functional segregation into areas like finance, marketing
4. Cohesive model for smaller businesses

(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-1, R-4, S-2
(C) P-3, Q-4, R-1, S-2
(D) P-4, Q-3, R-2, S-1

Ans :

(C) P-3, Q-4, R-1, S-2
The Departmental Approach involves functional segregation (P-3). The Integrated Approach is a cohesive model for smaller businesses (Q-4). The SBU Approach creates autonomous, profit-focused divisions (R-1). A Positioning Platform is the basis for setting competitive goals, such as being a top-three player in the market (S-2).

May/June 2009

62. Which of the following statements is LEAST accurate in describing retail banking models?

(A) Models and processes depend on the importance attached to retail banking in the corporate strategy.
(B) New generation private banks use technology and aggressive positioning to their advantage.
(C) Foreign banks may exit a business line if it is not meeting its profitability targets.
(D) Public Sector Banks in India have generally adopted the Strategic Business Unit (SBU) approach.

Ans :

(D) Public Sector Banks in India have generally adopted the Strategic Business Unit (SBU) approach.
This statement is the least accurate because the text clearly states that Public Sector Banks in India have generally adopted the Departmental Approach. The SBU approach is characteristic of new generation private banks and foreign banks.

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The other statements are all accurate descriptions of the concepts discussed.

Oct/Nov 2011

63. The term "knockdown the module" in the context of an SBU implies:
(A) A process of dismantling or discontinuing the business unit.
(B) A physical demolition of the office space occupied by the unit.
(C) A temporary suspension of the SBU's operations for review.
(D) A minor reduction in the SBU's budget by a small percentage.

Ans :

(A) A process of dismantling or discontinuing the business unit.
The phrase "knockdown the module" is used metaphorically. It refers to the strategic decision to dismantle, discontinue, or significantly restructure the Strategic Business Unit if it fails to achieve its predetermined objectives, particularly its profit targets. It represents the ultimate consequence of underperformance in this modular and performance-driven business model.

May/June 2010

64. A bank's annual report states: "Our retail banking division operates as a distinct profit centre with its own management team, a dedicated focus on the mortgage and auto loan segments, and full accountability for its financial performance." Which business model is this bank employing for its retail division?
(A) Integrated Approach
(B) Strategic Business Unit (SBU) Approach
(C) Departmental Approach
(D) Conservative Approach

Ans :

(B) Strategic Business Unit (SBU) Approach
The description perfectly matches the characteristics of a Strategic Business Unit (SBU). It is described as a "distinct profit centre" with its own management, a specific focus on product/market segments (mortgages and auto loans), and accountability for its performance. These are the defining features of the SBU model, which treats the division as a business within a business.

Oct/Nov 2024

65. The primary difference in the strategic drivers for domestic banks (using a positioning platform) versus foreign banks is:
(A) Market share vs. Profitability.
(B) Profitability vs. Market share.
(C) Regulatory compliance vs. Technological innovation.
(D) Short-term goals vs. Long-term goals.

Ans :

(B) Profitability vs. Market share.
Domestic banks often use a positioning platform, aiming for a top rank, which is closely related to market share and brand presence. In contrast, foreign banks are driven "purely on business objectives," with a strong emphasis on profit targets. This creates a fundamental strategic difference: one prioritizes market position, the other prioritizes financial return.

May/June 2017

66. Based on the excerpt, "Public Sector Banks in India generally have adopted the Departmental Approach as their retail banking business model. It indicates that the approach is more a general one with retail banking as one of the business models and not a focused business model," what is the main implication of PSBs using the Departmental Approach for retail banking?
(A) It signifies that retail banking is not treated as a focused, high-priority area.
(B) It results in high efficiency and deep specialization in retail products.
(C) It gives the retail banking division complete autonomy from central management.
(D) It is the most modern and effective model available for large-scale retail banking.

Ans :

(A) It signifies that retail banking is not treated as a focused, high-priority area.
The excerpt explicitly states that this approach is "more a general one" and that retail banking is treated as "one of the business models and not a focused business model." This directly implies that within the PSB structure, retail banking does not receive the specialized, high-priority strategic focus that an SBU model would provide.

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Oct/Nov 2005

67. The "chain of command" is a characteristic feature mentioned in the context of which organizational approach?
(A) The Strategic Business Unit Approach.
(B) The Integrated Approach.
(C) The Departmental Approach.
(D) The Modular Approach.

Ans :

(C) The Departmental Approach.
The description of the Departmental Approach states that "Generally, every department has its manager and chain of command." This highlights the traditional, hierarchical structure of this model, where authority and reporting lines are clearly defined within each functional department, distinguishing it from the more autonomous SBU structure.

May/June 2020

68. Which of the following represents a chronological sequence of events mentioned in the text?
(A) Citibank exits India → BNP Paribas exits India → American Express exits credit cards.
(B) American Express exits credit cards → Citibank exits India → BNP Paribas exits India.
(C) Citibank exits India → American Express exits credit cards → BNP Paribas exits India.
(D) BNP Paribas exits India → American Express exits credit cards → Citibank exits India.

Ans :

(D) BNP Paribas exits India → American Express exits credit cards → Citibank exits India.
The text mentions BNP Paribas's entry and exit in the "late 1990s." The exit of American Express from the credit card business is mentioned as another example from the past. Finally, Citibank's exit is referred to as a "recent" event. This establishes the chronological order as BNP Paribas, followed by American Express, and then the recent Citibank exit.

Oct/Nov 2015

69. A bank's strategy to become one of the "top three among the peer group players" is an example of a goal derived from what?
(A) A regulatory mandate from the central bank.
(B) An SBU-driven internal performance objective.
(C) A positioning platform for market leadership.
(D) An integrated approach focused on cost savings.

Ans :

(C) A positioning platform for market leadership.
The text specifies that banks structure their models on a positioning platform with the aim "to be the best/top three among the peer group players or across players." This type of competitive ranking goal is the direct output of a strategy based on market positioning, where the bank defines its desired place relative to its competitors.

May/June 2013

70. Consider the following statements:
1. The SBU model is a modular strategy.
2. The Departmental model is a functional strategy.

Which of the statements given above is/are correct?
(A) 1 only
(B) Both 1 and 2
(C) 2 only
(D) Neither 1 nor 2

Ans :

(B) Both 1 and 2
Both statements are correct. The SBU model is described as a "modular strategy" for achieving targeted profits, implying it can be added, modified, or removed like a module. The Departmental model is described as a "specialised functional approach," meaning its strategic basis is the division of labor by function, making it a functional strategy.

Oct/Nov 2021

71. Assertion (A): The business model of old generation private banks is described as conservative.
Reason (R): Their positioning platform is based on the bank's overall business plan and is in line with their size and scale.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

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Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that the model of old-gen private banks is conservative is true. The reason given is also true; their positioning is based on the overall plan and aligned with their size and scale. This reason directly explains why the model is conservative—it avoids aggressive, high-risk positioning that is not supported by its current capabilities.

May/June 2024

72. Bank 'Z' has its operations divided into an Accounting department, a Marketing department, a Finance department, and a Planning department. Each department has its own manager. The retail banking products are managed under the purview of the Marketing and Finance departments. Which approach has Bank 'Z' adopted?
(A) Departmental Approach
(B) SBU Approach
(C) Integrated Approach
(D) Positioning Approach

Ans :

(A) Departmental Approach
The structure described, with divisions for Accounting, Marketing, and Finance, each with its own manager, is the defining characteristic of the Departmental Approach. This model segregates the organization based on functions. The fact that retail products are managed across different functional departments further confirms the absence of a dedicated, autonomous retail SBU.

Oct/Nov 2008

73. The business models for retail banking show "interesting revelations" across types of banks. What is one such revelation mentioned?
(A) All banks, regardless of type, use the same standardized model for retail.
(B) Foreign banks are consistently less profitable than public sector banks in retail.
(C) The models vary significantly among public sector, private sector, and foreign banks.
(D) Private sector banks are slowly adopting the Departmental Approach from PSBs.

Ans :

(C) The models vary significantly among public sector, private sector, and foreign banks.
The text introduces the topic by stating that the models show "interesting revelations" and immediately follows by explaining that "The models adopted by banks vary among the public sector, private sector and foreign banks." This variation, with different bank types preferring different structural approaches (Departmental, SBU), is the key revelation being highlighted.

May/June 2006

74. According to the text, what is the risk-reward rationale behind the Integrated Approach?
(A) It is assumed to reduce risk and increase profitability through economies of scale.
(B) Increased risk is accepted for the potential of higher, specialized profits.
(C) Risk is diversified by having multiple separate business entities under one brand.
(D) Profitability is maximized by avoiding the high costs associated with economies of scale.

Ans :

(A) It is assumed to reduce risk and increase profitability through economies of scale.
The Integrated Approach is based on the assumption that having a single, unified business structure is beneficial. It is believed that this model helps in reducing overall business risk while simultaneously increasing profitability. The mechanism for this is achieving economies of scale, which is more feasible in a unified structure than in multiple separate entities.

Oct/Nov 2017

75. The primary focus of a Strategic Business Unit (SBU) is on:
(A) Cost control and company-wide operational efficiency.
(B) Corporate-level regulatory compliance and internal audit.
(C) Human resource management and employee training.
(D) A specific product offering and market segment.

Ans :

(D) A specific product offering and market segment.

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An SBU is defined as a profit centre that concentrates its efforts on specific areas. Its primary focus is on a particular product offering and a defined market segment. This specialization allows the SBU to develop deep expertise and tailor its strategies effectively to capture its target market and drive profitability within its designated niche.

May/June 2008

76. Which of the following is NOT a characteristic of the approach taken by new generation private banks?
(A) A clear vision about their desired positioning platform.
(B) A conservative approach in line with their current size and scale.
(C) A desire to be in the top slot across all class of banks.
(D) The strategic use of technology and aggressive positioning.

Ans :

(B) A conservative approach in line with their current size and scale.
A conservative approach aligned with size and scale is the characteristic of old generation private banks. New generation private banks are defined by the opposite: a clear and ambitious vision, a desire for a top-slot position, and the use of aggressive strategies and modern technology to achieve their goals, rather than being constrained by their current scale.

Oct/Nov 2013

77. The text uses the term "barometer" in relation to a bank's positioning platform. What does this imply?
(A) Positioning is a fixed, unchangeable goal that is set once and never revisited.
(B) Positioning is only a concern for the marketing department and not other divisions.
(C) Positioning is a standard of measurement used to guide and align marketing decisions.
(D) Positioning is a tool used to predict future economic and market trends.

Ans :

(C) Positioning is a standard of measurement used to guide and align marketing decisions.
A barometer is an instrument that measures pressure and indicates change. In this context, "barometer" is used metaphorically to mean that the bank's positioning objective serves as a standard or a gauge. All decisions affecting marketing strategy are measured against this standard to ensure they are consistent with the desired market position.

May/June 2015

78. Which statement accurately reflects the stance of foreign banks on their business objectives?
(A) They prioritize positioning objectives, such as market rank, over business objectives.
(B) They have a history of existing in markets even when business objectives have not been met.
(C) Their business objectives are solely focused on brand building and public relations.
(D) They focus on business objectives and will exit if these are not met.

Ans :

(D) They focus on business objectives and will exit if these are not met.
The text emphasizes that foreign banks prioritize business objectives (customer, profit targets) over positioning. The examples of BNP Paribas and Citibank demonstrate that they do not continue in markets where objectives are unmet; instead, they make the strategic decision to exit, highlighting their focus on performance and profitability.

Oct/Nov 2012

79. The description, "The business model for retail banking is built as a part of the overall business plan and not done as a separate departmental activity, leave alone SBU. This approach is more conservative," is most applicable to which type of institution?
(A) Old generation private sector banks.
(B) Foreign banks operating in India.
(C) New generation private sector banks.
(D) Technology-focused FinTech companies.

Ans :

(A) Old generation private sector banks.
The excerpt describes a conservative approach where retail banking is integrated into the main business plan rather than being a separate SBU. The text explicitly links this "more conservative" approach to "old generation private sector banks," distinguishing them from the SBU-focused new generation private banks and foreign banks.

NODIA

May/June 2011

80. The demarcation of an SBU is described as a Management by Objectives (MBO) process. What does this imply about the SBU's operation?

(A) Its success is measured by strict adherence to processes, not by results achieved.
(B) Its operations are driven by and evaluated against pre-defined, targeted goals.
(C) It has complete freedom to set its own objectives without any corporate approval.
(D) It is a temporary structure that is automatically dissolved after one fiscal year.

Ans :

(B) Its operations are driven by and evaluated against pre-defined, targeted goals.
Management by Objectives (MBO) is a management model that aims to improve performance by clearly defining objectives that are agreed to by both management and employees. Linking the SBU to MBO implies that the SBU's entire operation is geared towards achieving specific, targeted goals (like profits), and its performance is judged against these objectives.

Oct/Nov 2020

81. Which of the following four statements about business models is incorrect?

(A) The SBU approach divides business along strategic or product lines.
(B) The Integrated approach is best suited for large, complex organizations.
(C) The Departmental approach divides business along functional lines.
(D) Foreign banks' models are driven primarily by specific profit targets.

Ans :

(B) The Integrated approach is best suited for large, complex organizations.
This statement is incorrect. The text clearly states that the Integrated Approach is "usually adopted by smaller businesses." It is a cohesive, unified model that leverages scale, which is not suitable for the complexity of large organizations that typically require more structured and specialized divisions like SBUs or departments to manage their diverse operations effectively.

May/June 2022

82. What is the key difference between the SBU approach and the Departmental approach?

(A) The SBU approach creates autonomous profit centres, while the Departmental approach creates functional silos.
(B) The SBU approach focuses on functions, while the Departmental approach focuses on products.
(C) The SBU approach is for small businesses, while the Departmental approach is for large ones.
(D) The SBU approach is used by PSBs, while the Departmental approach is used by foreign banks.

Ans :

(A) The SBU approach creates autonomous profit centres, while the Departmental approach creates functional silos.
The fundamental difference lies in the basis of division and the resulting structure. The SBU approach divides the business along strategic lines to create autonomous, profit-focused units. In contrast, the Departmental approach divides the business by function (accounting, marketing), creating specialized functional departments or "silos" with their own management and chain of command.

Oct/Nov 2023

83. The text provides examples of banks exiting specific business lines. What common theme underlies the decisions of BNP Paribas, American Express Bank, and Citibank?

(A) A response to increased competition from domestic public sector banks.
(B) A mandate from the Indian government to reduce their overall market presence.
(C) A strategic re-evaluation of a business line's profitability or fit with global strategy.
(D) Difficulties in adopting new banking technologies required for the Indian market.

Ans :

(C) A strategic re-evaluation of a business line's profitability or fit with global strategy.
In each case, the exit was a deliberate strategic move. BNP Paribas quit because the segment was "not a profitable segment." American Express quit after "taking stock of its viability." Citibank's exit was "a part of their global strategy." The common theme is a rigorous, performance-based assessment of business lines against profitability and strategic fit.

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May/June 2016

84. Match the bank with the strategic action mentioned in the text.

List-I (Bank)

P. BNP Paribas

Q. American Express Bank

R. Citibank

S. Axis Bank

List-II (Action)

1. Acquired the Indian retail business of a foreign bank.
2. Quit retail business in India as part of global strategy.
3. Came out of their credit card business after reviewing viability.
4. Quit the retail banking space after finding it unprofitable.

(A) Orig B

(B) Orig C

(C) Orig D

(D) P-4, Q-3, R-2, S-1

Ans :

(D) P-4, Q-3, R-2, S-1

BNP Paribas quit the retail space after finding it unprofitable (P-4). American Express Bank came out of its credit card business after a viability review (Q-3). Citibank quit its retail business in India as part of a global strategy (R-2). Axis Bank was the entity that acquired Citibank's Indian retail business (S-1).

Oct/Nov 2009

85. What does the term "peer group" signify in the context of a bank's positioning platform?

(A) All employees of the bank who are at the same hierarchical level.

(B) The members of the bank's board of directors and senior management.

(C) A selected group of competing banks used for performance comparison.

(D) A focus group composed of the bank's most valuable and loyal customers.

Ans :

(C) A selected group of competing banks used for performance comparison.

In a business and strategic context, a "peer group" refers to a set of comparable companies or competitors within the same industry. When a bank aims to be in the "top three among the peer group players," it means it is benchmarking itself against and aiming to outperform a specific set of rival banks.

May/June 2023

86. Which of the following is an example of a "business line" that a foreign bank might exit?

(A) The entire Indian operation.

(B) The credit card business.

(C) The bank's marketing department.

(D) A single branch in a major city.

Ans :

(B) The credit card business.

A "business line" refers to a specific type of product or service offered. The text provides the example of American Express Bank exiting its "credit card business," which is a distinct business line. Exiting an entire country's operation is a larger strategic move, while a department or a single branch is an operational component, not a business line.

Oct/Nov 2018

87. The term "business mix" is mentioned as a factor influencing a bank's choice of model. What does business mix refer to?

(A) The demographic mix of the bank's employees and management team.

(B) The mix of domestic and international investors holding shares in the bank.

(C) The blend of different technology platforms used by the bank's various divisions.

(D) The combination of different products and services the bank offers.

Ans :

(D) The combination of different products and services the bank offers.

"Business mix" refers to the portfolio or composition of different types of business activities a bank engages in. This includes the relative weight of retail banking, corporate banking, treasury operations, and other services. The specific mix influences the choice of an organizational model that can best manage and grow that particular portfolio of activities.

May/June 2007

88. Consider the following five statements regarding retail banking models:

1. SBU demarcation is an MBO process.
2. The Integrated approach is used by smaller businesses.

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3. PSBs in India generally use the Departmental approach.
4. Foreign banks' strategies are driven by positioning objectives.
5. New-gen private banks have clear positioning strategies.

Which combination of statements is correct?
(A) 1, 2, 3, 5
(B) 1, 2, 3, 4
(C) 2, 3, 4, 5
(D) 1, 3, 4, 5

Ans :

(A) 1, 2, 3, 5
Statements 1, 2, 3, and 5 are all correct descriptions found in the text. Statement 4 is incorrect; the text explicitly states that foreign banks generally do not go by positioning objectives but rather by business and profit objectives. This is a key distinction between them and many domestic banks.

Oct/Nov 2025

89. A key advantage of new generation private banks is "aggressive positioning." What does this most likely entail?
(A) A slow and cautious expansion into new and untested markets.
(B) A primary focus on maintaining the status quo and current market share.
(C) Rapid market penetration, competitive product launches, and strong brand campaigns.
(D) A strategy of only serving a very small, exclusive niche of high-net-worth customers.

Ans :

(C) Rapid market penetration, competitive product launches, and strong brand campaigns.
Aggressive positioning implies a proactive and forceful strategy to capture market share and establish a strong presence. This typically involves rapid expansion, launching competitive and innovative products to attract customers, and investing heavily in marketing and brand-building campaigns to create a distinct and leading identity in the marketplace.

May/June 2012

90. The overall theme of the provided text suggests that the structure of a bank's retail operations is:
(A) A strategic choice that reflects the bank's priorities, scale, and type.
(B) A one-size-fits-all model that is mandated by the banking regulator.
(C) An outdated concept in the modern age of purely digital banking.
(D) Primarily determined by the bank's age and historical legacy.

Ans :

(A) A strategic choice that reflects the bank's priorities, scale, and type.
The text details how different types of banks (public, private, foreign) choose different models (SBU, Departmental, Integrated) based on their unique corporate strategies, objectives, and scale. This demonstrates that the organizational structure for retail banking is not uniform but is a deliberate strategic choice tailored to the specific context and goals of each institution.

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Oct/Nov 2014

91. Which approach is described as combining "all socio economic aspects" to tackle business problems?
(A) Strategic Business Unit (SBU) Approach.
(B) Departmental Approach.
(C) Management by Objectives (MBO) Approach.
(D) Integrated Approach.

Ans :

(D) Integrated Approach.
The text specifically defines the Integrated Approach as one that "combines all socio economic aspects and adopts a cohesive approach to tackle problems of the business." This holistic perspective is a key feature of this model, which is typically employed by smaller businesses to create a unified operational strategy.

May/June 2019

92. The study mentioned in the SBU section analyzed models from about how many banks?
(A) About 50 banks.
(B) About 10 banks.
(C) Exactly 5 banks.
(D) Over 100 banks.

Ans :

(B) About 10 banks.
The text states, "As per a research study on the models followed by about 10 banks comprising of public, private and foreign banks, the SBU approach is adopted by one of the top five public sector banks..." This detail specifies the

approximate sample size of the research study being cited.

Oct/Nov 2006

93. If a bank's retail strategy is part of the "overall business plan" and not a "separate departmental activity," it is LEAST likely to be a:
(A) Public Sector Bank.
(B) Old generation private bank.
(C) New generation private bank.
(D) Bank with a conservative approach.

Ans :

(C) New generation private bank.
The description of retail banking being integrated into the overall plan rather than being a separate SBU is characteristic of PSBs and old-generation private banks with a conservative approach. New generation private banks are explicitly noted for setting up retail banking as a distinct Strategic Business Unit (SBU) from their inception to ensure clear focus.

May/June 2021

94. The example of BNP Paribas entering the market in the "late 1990s" serves to illustrate:
(A) The long-term success and commitment of foreign banks in the Indian market.
(B) The inherent benefits of the Departmental approach for foreign entrants.
(C) The stability and unchanging nature of retail banking models over time.
(D) The principle that foreign banks will exit if profit objectives are not met.

Ans :

(D) The principle that foreign banks will exit if profit objectives are not met.
The BNP Paribas story is presented as a "classic example" to illustrate the behavior of foreign banks. They entered aggressively but quit when the segment proved unprofitable. This case directly supports the principle that foreign banks' presence in a market or segment is contingent on meeting their specific business and profit objectives.

Oct/Nov 2010

95. In the departmental approach, the organization is segregated into departments such as all of the following EXCEPT:
(A) Strategic Business Unit.
(B) Accounting.
(C) Marketing.
(D) Finance.

Ans :

(A) Strategic Business Unit.
The departmental approach segregates the organization by functions, and the text lists accounting, marketing, finance, and planning as examples. A Strategic Business Unit (SBU) is the core component of a different, competing organizational model (the SBU approach) and represents a business-line division, not a functional department within the departmental model.

May/June 2005

96. A bank's vision to be "in the top slot across all class of banks" is a characteristic of which type of bank?
(A) Old generation private banks.
(B) New generation private banks.
(C) Public Sector Banks.
(D) Smaller businesses using the Integrated Approach.

Ans :

(B) New generation private banks.
This ambitious vision is explicitly attributed to new generation private banks. The text states, "The new generation private banks have clear vision about their positioning platform. They want to be in the top slot across all class of banks and justifiably so." This goal drives their aggressive strategies and use of technology.

Oct/Nov 2022

97. The analysis of retail banking models in terms of products, processes, delivery channels, and technology helps in understanding:
(A) The irrelevance of individual model elements in the digital age.
(B) The efficiency of the total model and the inter-dependency of its elements.
(C) The universal superiority of the departmental approach in all situations.
(D) The historical reasons for regulatory changes in the banking sector.

Ans :

(B) The efficiency of the total model and the inter-dependency of its elements.
The text suggests that a deeper look into these components reveals "the real depth of retail

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banking, the relevance of each element for the efficiency of the total model and the inter dependency of these elements for the success of the models." This highlights how these parts must work together for the overall model to succeed.

May/June 2018

98. Which of the following is NOT listed as a keyword for the unit in the provided text?
(A) Departmental Approach.
(B) Business Model.
(C) Strategic Business Unit.
(D) Positioning platform.

Ans :

(A) Departmental Approach.
While "Departmental Approach" is a major concept discussed, it was not included in the specific list of keywords provided in the source text, which were "Business Model; Strategic Business Unit; Business Plan; Positioning platform; peer group."

Oct/Nov 2016

99. The main objective of the unit is to understand different approaches in retail banking and what else?
(A) Corporate banking strategies.
(B) International finance regulations.
(C) Retail business models.
(D) Human resource policies in banks.

Ans :

(C) Retail business models.
The objectives stated at the beginning of the source text are to understand "Different approaches in retail banking; Retail business models." This sets the scope for the chapter, focusing on the structural approaches and the resulting business models used by banks for their retail operations.

May/June 2014

100. The decision of a foreign bank to exit a retail banking segment is primarily a reflection of its:
(A) Overarching corporate social responsibility and community outreach policy.
(B) Stated long-term commitment to the stability of the local economy.
(C) Strict adherence to the traditional departmental model of organization.
(D) Performance-driven strategy focused on meeting specific profit objectives.

Ans :

(D) Performance-driven strategy focused on meeting specific profit objectives.
The behavior of foreign banks, as illustrated by the examples of BNP Paribas, American Express, and Citibank, demonstrates a clear strategic pattern. Their decisions to stay in or exit a market or business line are primarily driven by performance against specific business and profit targets, reflecting a highly performance-driven and profit-oriented strategic mindset.

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CHAPTER 3

Applicability of Retail Banking Concepts and Distinction between Retail and Corporate/ Holesale Banking

Oct/Nov 2016

1. Which of the following is NOT listed as a key factor contributing to the growth of retail banking?
   (A) Rapid advances in information technology
   (B) Increased regulatory restrictions on product innovation
   (C) Evolving macroeconomic environment
   (D) Financial market reform

   Ans :

   (B) Increased regulatory restrictions on product innovation
   The growth of retail banking is attributed to factors like IT advancements, macroeconomic changes, financial market reforms, and various micro-level demand and supply factors. Increased regulatory restrictions would typically hinder, not facilitate, growth and innovation in the sector. These factors together enable the delivery of the right product at the right price and time.

May/June 2021

2. Which of the following is considered a primary "comfort factor" for banks in India to adopt the retail banking business model?
   (A) A better risk proposition from a diversified customer base
   (B) A decreased requirement for significant investment in new technology
   (C) Simplified regulatory compliance for standard retail products
   (D) Reduced competitive pressure from non-banking financial companies

   Ans :

   (A) A better risk proposition from a diversified customer base
   Banks adopt retail banking due to multiple comfort factors, including the acquisition of a large customer base, multiple product offerings, better pricing, and profitability. A significant factor is the better risk proposition that arises from spreading risk across a large number of small-ticket loans, which reduces dependency on a few large borrowers.

Oct/Nov 2024

3. According to the basic characteristics of today's retail banking sector, which of the following is NOT one of the "multiples"?
   (A) Multiple products
   (B) Multiple channels of distribution
   (C) Multiple regulatory frameworks
   (D) Multiple customer groups

   Ans :

   (C) Multiple regulatory frameworks
   The modern retail banking sector is characterized by three basic dimensions of multiplicity. These are multiple products like deposits, loans, and cards; multiple channels of distribution such as branches, internet, and mobile banking; and multiple customer groups including consumers, small businesses, and corporates. Regulatory frameworks are a condition, not a defining characteristic of the model.

May/June 2005

4. In the context of retail banking implementation models, what does "end-to-end outsourcing" signify?
   (A) Outsourcing is strictly limited to front-end customer acquisition and initial sourcing activities.
   (B) Outsourcing is narrowly restricted to specific non-core functions like ATM card issuance.
   (C) All core banking operations are managed in-house, with outsourcing limited to IT infrastructure support.

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(D) The entire retail banking process, from sourcing to servicing, is managed by external vendors.

Ans :

(D) The entire retail banking process, from sourcing to servicing, is managed by external vendors.
Banks adopt various models for their retail initiatives, including end-to-end outsourcing. This particular strategy involves delegating the entire spectrum of retail banking activities, from customer acquisition and processing to servicing and back-office functions, to external agencies. This contrasts with partial outsourcing or in-house models where the bank retains control over certain functions.

Oct/Nov 2012

5. Which of the following factors is a key determinant in a bank's choice of a retail banking implementation model?
(A) The bank's proximity to the central bank headquarters
(B) The number of public holidays in the operational region
(C) Technology preparedness and delivery capabilities
(D) The stock market performance of competitor banks

Ans :

(C) Technology preparedness and delivery capabilities
The selection of an implementation model, whether in-house, outsourced, or a hybrid, depends on several internal and external factors. Key determinants include the bank's product range, process requirements, technological readiness, delivery capabilities, human resources, and the prevailing regulatory prescriptions. Technology and delivery infrastructure are crucial for the model's success.

May/June 2017

6. Assertion (A): Most Public Sector Banks (PSBs) primarily use in-house resources for their retail banking operations.
Reason (R): Regulatory prescriptions are one of the major determinants influencing the extent of outsourcing in PSBs.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Most PSBs indeed rely on in-house resources for retail banking, outsourcing only specific activities like ATM card issuance due to a lack of internal facilities. The text explicitly states that regulatory prescriptions are a major determinant of outsourcing or the lack thereof in these banks, directly linking the regulatory environment to the operational model chosen.

Oct/Nov 2008

7. Which type of bank typically follows a retail banking implementation model that is a balanced mix of outsourcing and in-house operations, though slightly skewed towards outsourcing?
(A) Old private sector banks
(B) Foreign banks
(C) Public sector banks
(D) New generation private sector banks

Ans :

(D) New generation private sector banks
New generation private sector banks are characterized by a hybrid implementation model. They use a balanced combination of outsourcing and in-house processes. This approach is often skewed towards outsourcing, with some banks outsourcing asset-side operations while keeping liability-side functions in-house, albeit centrally processed, to leverage external expertise and internal control effectively.

May/June 2025

8. "In foreign banks, the implementation model is mostly outsourced based on the business model. To add, in some foreign banks, both front and back end operations are outsourced and in some banks, the back end operations are outsourced while the front end operations like sourcing of HNI clients are done through captive resources."
Based on the provided text, which statement accurately describes the implementation model in foreign banks?
(A) A predominantly outsourced model that allows for variations, such as in-house sourcing for HNI clients.

NODIA

(B) Foreign banks are under a strict regulatory mandate to use only captive, in-house resources for all operations.
(C) A universally applied model where foreign banks consistently outsource only back-end and never front-end operations.
(D) Specific regulatory rules strictly limit any outsourcing by foreign banks to only non-client-facing activities.

Ans :

(A) A predominantly outsourced model that allows for variations, such as in-house sourcing for HNI clients.
The source clearly states that the model in foreign banks is 'mostly outsourced'. It then provides examples of the variations within this model: some outsource everything (front and back end), while others outsource only the back end and use their own 'captive resources' for specific front-end tasks like acquiring High Net-worth Individual (HNI) clients.

Oct/Nov 2019

9. According to the Boston Consulting Group's study, which business process model in retail banking is described as a modular structure using different process models for different products and offering end-to-end solutions product-wise?
(A) Vertically Organised Model
(B) Predominantly Vertically Organised Model
(C) Horizontally Organised Model
(D) Centrally Organised Model

Ans :

(C) Horizontally Organised Model
The Horizontally Organised Model is defined by its product-centric, modular structure. It employs distinct process models for different products, effectively creating separate, end-to-end solutions for each product line. This contrasts with the Vertically Organised Model, which focuses on providing functionality across products with a centralized, customer-oriented database for integrated service delivery.

May/June 2011

10. What is the primary characteristic of a Vertically Organised Model in retail banking?
(A) Providing functionality across all products via a centralized customer database.
(B) Focusing on product-specific solutions that operate on separate and non-integrated databases.
(C) A product-focused structure that shares common customer information for only a limited number of products.
(D) A fully decentralized system that depends entirely on branch-level processing for all customer transactions.

Ans :

(A) Providing functionality across all products via a centralized customer database.
The Vertically Organised Model is fundamentally customer-oriented rather than product-oriented. Its key feature is the ability to provide functionality across different product lines by leveraging a centralized customer database. This integrated data structure allows for a holistic view of the customer, facilitating cross-selling and relationship-based services, which is a key distinction from the siloed approach.

Oct/Nov 2005

11. Which of the following pairs correctly matches the business process model with its description?
(A) Predominantly Horizontally Organised Model : Features common customer information that is available for most products
(B) Vertically Organised Model : A modular structure that uses different process models for each different product
(C) Horizontally Organised Model : Provides broad functionality across all products with a strong customer database orientation
(D) Predominantly Vertically Organised Model : Has common customer info for most products, enabling cross-selling

Ans :

(D) Predominantly Vertically Organised Model : Has common customer info for most products, enabling cross-selling
The Predominantly Vertically Organised Model implies that a common, integrated customer information system is available for the majority of products offered by the bank. This high level of data integration significantly enhances the bank's ability to engage in effective cross-selling and up-selling, as it has a comprehensive view of the customer's relationship.

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May/June 2020

12. Which business process structure is considered the standard norm in most Public Sector Banks (PSBs)?

(A) Vertically Organised Model
(B) Horizontally Organised Model
(C) Predominantly Vertically Organised Model
(D) A blend of Vertically and Horizontally Organised Models

Ans :

(B) Horizontally Organised Model
In most Public Sector Banks, the Horizontally Organised Model is the standard operational structure. This product-oriented, modular approach reflects a system where processes and data are often siloed by product type. While some PSBs may show elements of other models, the horizontally organized structure remains the predominant and standard norm for this sector.

Oct/Nov 2013

13. Statement I: New private sector banks generally follow a Vertically Organised Model for their retail banking operations.
Statement II: Foreign banks typically adopt a Predominantly Vertically Organised Model, using common customer information across products.

(A) Only Statement I is correct.
(B) Only Statement II is correct.
(C) Both Statement I and Statement II are correct.
(D) Both Statement I and Statement II are incorrect.

Ans :

(C) Both Statement I and Statement II are correct.
The text confirms that new private sector banks generally follow a Vertically Organised Model, leveraging a centralized customer database. It also states that foreign banks mostly use a Predominantly Vertically Organised Model, which implies extensive use of common customer information across their product range to drive their retail banking initiatives. Both statements are factually accurate.

May/June 2007

14. In the context of retail banking implementation models, what does the "Segmented Approach" involve?

(A) Developing distinct retail models tailored to different geographical regions and their demographics.
(B) Creating specific strategies based on the official branch classification, such as rural or urban.
(C) Implementing a single, holistic model derived from the bank's high-level corporate retail objectives.
(D) Classifying branches by business potential to apply focused marketing strategies.

Ans :

(D) Classifying branches by business potential to apply focused marketing strategies.
The Segmented Approach is a strategy where branches are classified into categories like Resource Centres, Profit Centres, or Priority Centres based on their potential for retail business. These selected branches are then targeted with focused marketing strategies and become part of the bank's overall segmentation game plan, ensuring resources are directed effectively.

Oct/Nov 2022

15. Which of the following statements about the business approaches of different bank types is incorrect?

(A) New generation private sector banks exclusively use a geography-based approach.
(B) Most PSBs adopt a holistic model based on corporate objectives rather than a specific segmented model.
(C) Old private banks base their retail model on overall corporate objectives with limited segmentation.
(D) Foreign banks' models are not restricted to a single approach but are based on their overall retail game plan.

Ans :

(A) New generation private sector banks exclusively use a geography-based approach.
New generation private sector banks adopt a mix of the segmented model and the classification-based model to capture retail potential in a structured manner. They do not rely exclusively on a geography-based approach. The other statements accurately reflect the typical business approaches adopted by PSBs, old private banks, and foreign banks respectively.

May/June 2014

16. What is the primary role of "product portfolio structuring" in the retail banking strategies of banks?

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(A) A narrow function focused exclusively on minimizing the total number of products offered.
(B) A key function spanning liability, asset, and third-party product categories.
(C) A specialized function that primarily deals with the marketing of corporate loan products.
(D) A compliance-driven activity with no direct strategic impact on the bank's business.

Ans :

(B) A key function spanning liability, asset, and third-party product categories.
Product portfolio structuring is a critical strategic element in retail banking. It involves the careful management and integration of the bank's entire suite of retail offerings, which spans across liability products (deposits), asset products (loans), other services, and third-party products (insurance, mutual funds), to meet diverse customer needs and achieve business objectives.

Oct/Nov 2009

17. Which of the following is listed as a key benefit of a strong retail asset side for a bank?
(A) A significant increase in portfolio risk from concentration in a few large corporate accounts.
(B) Assisting in national economic revival by stimulating production activity.
(C) A marked reduction in profitability due to lower yields and a negative impact on the bottom line.
(D) An enhanced negotiating position that gives increased bargaining power to corporate clients.

Ans :

(B) Assisting in national economic revival by stimulating production activity.
The text lists several advantages of the retail asset side. These include better yields, being a good avenue for fund deployment, lower perceived risk, and improving lifestyles through affordable credit. A key macroeconomic benefit mentioned is that it helps in the economic revival of the nation by fueling consumption and, consequently, production activity.

May/June 2023

18. Consider the following statements regarding liability products in retail banking:
i. They are offered under three main spaces: Savings, Current, and Term Deposit Accounts.
ii. Product differentiation is primarily achieved by adding different value propositions.
iii. A simple passbook and cheque book are now considered essential value-play features.
Which of the above statements is/are correct?
(A) i only
(B) i and ii only
(C) ii and iii only
(D) i, ii, and iii

Ans :

(B) i and ii only
Liability products are indeed categorized into Savings, Current, and Term Deposit accounts, and differentiation is achieved through value additions. However, statement (iii) is incorrect. The text explicitly states that a simple passbook and cheque book are now "passé" (outdated), while features like Internet Banking and Mobile Banking have become the "essential value play."

Oct/Nov 2018

19. A bank is designing a new premium savings account. To make it a "value enriched account," the marketing team proposes including Group Life Insurance, a floater-based Group Health Policy, and a sweep-in/sweep-out facility. What is the primary strategic objective behind adding these features?
(A) To achieve full compliance with newly introduced, mandatory regulatory requirements for all savings accounts.
(B) To design a niche product aimed exclusively at corporate clients for their employee benefit schemes.
(C) To differentiate a generic product and increase customer loyalty and retention.
(D) To significantly lower the ongoing operational costs associated with managing savings accounts.

Ans :

(C) To differentiate a generic product and increase customer loyalty and retention.
The addition of features like group insurance, health policies, and sweep facilities is a key strategy to achieve product differentiation. This moves the product from being a "plain vanilla" account to a "value enriched" one. The goal is to

NODIA

offer a comprehensive package that meets more of the customer's needs, thereby increasing the account's value and fostering loyalty.

May/June 2012

20. What is the function of a "sweep-in and sweep-out" facility associated with a savings account?

(A) Facilitating the automatic transfer of designated funds from the account to an external investment firm.

(B) Providing the customer with unlimited free cash withdrawals from any affiliated domestic ATM network.

(C) Offering an immediate overdraft facility against the account balance for pre-approved emergency fund needs.

(D) It automatically moves funds between a savings account and a fixed deposit to optimize interest.

Ans :

(D) It automatically moves funds between a savings account and a fixed deposit to optimize interest.

The sweep-in and sweep-out facility is designed to increase the earning potential of idle funds in a savings account. When the balance exceeds a specified threshold, the excess amount is automatically transferred (swept-out) into a higher-yielding fixed deposit. Funds are transferred back (swept-in) to the savings account when the balance falls low.

Oct/Nov 2014

21. In addition to features commonly found in savings accounts, what specific facility is often structured as part of the package for Current Deposit accounts in some banks?

(A) A guaranteed annual dividend

(B) Free international travel insurance

(C) An auto overdraft facility

(D) Access to agricultural subsidy schemes

Ans :

(C) An auto overdraft facility

While many features like ATM cards and internet banking are common to both savings and current accounts, the text specifically mentions that in some banks, an auto overdraft facility is structured as part of the package for Current Deposits. This provides businesses with a flexible, short-term credit line linked directly to their primary operating account.

May/June 2019

22. Which of the following statements about liability product offerings across different bank types is incorrect?

(A) In almost all PSBs, a savings account with an ATM/Debit Card is the standard entry-level product.

(B) New generation private sector and foreign banks offer a less comprehensive liability product range than PSBs.

(C) Super Savings Accounts with a value bouquet are offered by some PSBs to High Value Customers.

(D) In most old private sector banks, an add-on life insurance cover is a common feature with savings accounts.

Ans :

(B) New generation private sector and foreign banks offer a less comprehensive liability product range than PSBs.

The text indicates that new generation private sector banks and foreign banks offer all the modern liability products and features, including those offered by PSBs and old private banks. Therefore, their range of products is typically more, not less, comprehensive. The other statements accurately describe the product offerings of PSBs and old private banks.

Oct/Nov 2006

23. The text suggests that product differentiation among banks is "wafer thin." What is identified as the key factor that truly varies across banks and separates the top performers?

(A) The color and design of their debit cards

(B) The number of branches in rural areas

(C) The base interest rate offered on a standard savings account

(D) Value differentiation, technology, and process delivery efficiencies

Ans :

(D) Value differentiation, technology, and process delivery efficiencies

While the core products offered by most banks are very similar (wafer-thin differentiation), the key differentiators that separate "men from boys" are the value-added services, the efficiency and robustness of their technology platforms, the speed and convenience of their process delivery, and the overall ease of access for the customer.

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These factors create a superior customer experience.

May/June 2010

24. What is the primary intention behind offering Fixed Deposits built with "units of fixed amount"?
(A) To allow partial withdrawal of funds without breaking the entire deposit and losing all interest.
(B) To directly link the deposit's total value to the stock market performance of specific units.
(C) To simplify the complex annual process of calculating Tax Deducted at Source (TDS) on interest.
(D) To meet a specific regulatory requirement for all term deposits exceeding a certain threshold value.

Ans :

(A) To allow partial withdrawal of funds without breaking the entire deposit and losing all interest.
The concept of building a fixed deposit with 'units' is a product reengineering measure. It injects flexibility into a traditionally rigid product. This structure allows a depositor to withdraw a portion of their funds (by breaking one or more units) without disturbing the entire deposit amount, thus preventing the total loss of accumulated interest.

Oct/Nov 2025

25. Consider the following summary points regarding retail deposits:
i. They are highly volatile and do not form core deposits.
ii. They are generally interest-sensitive, with customers frequently bargaining for higher rates.
iii. They constitute a source of low-cost funds for the banks.
iv. Effective CRM with retail depositors is key to maximizing wallet share.
Which of the above statements are correct?
(A) i and ii only
(B) iii and iv only
(C) i, ii, and iii only
(D) ii, iii, and iv only

Ans :

(B) iii and iv only
The text explicitly states that retail deposits are stable and constitute core deposits (making 'i' incorrect) and that they are interest insensitive and less subject to bargaining (making 'ii' incorrect). It confirms that they are a source of low-cost funds for banks and that effective customer relationship management is crucial for building a strong base and maximizing wallet share.

May/June 2018

26. Retail asset financing is described as the "backbone of the revenue streams" for banks. What percentage of the total asset base can retail assets constitute in some banks?
(A) 40 to 45 percent
(B) 10 to 15 percent
(C) 20 to 25 percent
(D) 30 to 35 percent

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Ans :

(A) 40 to 45 percent
The focus on retail assets is so high in some banks that this portfolio can make up a significant portion of their overall balance sheet. The text specifies that in some cases, retail assets can constitute as high as 40 to 45 percent of the total asset base, underscoring their strategic importance for revenue and stability.

Oct/Nov 2021

27. Which of the following is an important advantage of having a large and diversified retail asset portfolio?
(A) It significantly increases the bank's dependence on a few large corporate borrowers.
(B) It generally leads to lower income spreads when compared to corporate lending.
(C) It concentrates risk, making the bank highly vulnerable to sectoral economic downturns.
(D) It provides scope for capturing additional revenue streams from other avenues.

Ans :

(D) It provides scope for capturing additional revenue streams from other avenues.
A key advantage of a strong retail asset base is the opportunity for cross-selling and up-selling. This allows the bank to capture additional revenue streams through other avenues, such as selling insurance, credit cards, or investment products to the same customer. Other advantages include risk diversification, stability, and better income spreads.

May/June 2008

28. Which of the following is NOT listed as a standard retail asset product offered by banks?
(A) Housing Loans
(B) Letters of Credit
(C) Car Loans
(D) Personal Loans

Ans :

(B) Letters of Credit
The standard retail asset products mentioned are Housing Loans, Consumer Durable Loans, Car Loans, Credit Cards, Mortgage Loans, and Personal Loans. Letters of Credit are typically non-fund based facilities associated with trade finance and corporate banking, not standard retail asset products offered to individual customers for personal consumption or investment.

Oct/Nov 2015

29. Some banks offer special schemes for extending a loan or overdraft facility against a car or house that does not already have a loan on it. What is the primary purpose of such a facility?
(A) Creating a direct financial incentive for customers to sell their existing, fully-owned assets.
(B) Providing the initial and primary financing required for the purchase of a new car or house.
(C) To provide liquidity or enhance equity by leveraging an existing unencumbered asset.
(D) Offering a specialized, tax-advantaged investment instrument targeted at high-net-worth individuals.

Ans :

(C) To provide liquidity or enhance equity by leveraging an existing unencumbered asset.
This type of facility allows customers to leverage the value of an asset they already own free and clear (i.e., it does not have a loan tag). By taking an overdraft against the market value of the car or house, the customer can access funds for various personal or business needs, effectively enhancing their available liquidity or equity.

May/June 2013

30. A bank is evaluating its retail strategy. A consultant points out that a large, diversified retail loan portfolio reduces the bank's reliance on a few large corporate borrowers and offers better spreads. The consultant is highlighting which key advantages of retail banking?
(A) Lower NPA perception and minimal marketing efforts
(B) Economic revival and lifestyle improvement for customers
(C) Fee-based income generation and product bundling
(D) Risk diversification and improved profitability

Ans :

(D) Risk diversification and improved profitability
The consultant's advice directly addresses two core benefits of retail assets. A diversified portfolio with many small loans reduces the dependence on a "few or single borrower," which is risk diversification. The mention of "better spreads in income" points directly to the improved profitability and better yields that retail loans typically offer compared to corporate loans.

Oct/Nov 2023

31. Match the type of "Other Products/Services" (List-I) with the corresponding example (List-II).
List-I
P. Service Tool
Q. Third-Party Product Distribution
R. Payment Service
S. Investment Service
List-II
1. Distribution of mutual funds
2. Depository Service
3. Mobile Banking
4. Bill payment services
Code:
(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-3, R-2, S-4
(C) P-3, Q-2, R-1, S-4
(D) P-2, Q-4, R-3, S-1

Ans :

(A) P-3, Q-1, R-4, S-2
Mobile Banking (P-3) is a service tool that enhances delivery efficiency. Distribution of mutual funds (Q-1) is a classic third-party product. Bill payment services (R-4) fall under the category of payment-related offerings. Depository Service (S-2) is an investment-related service that facilitates holding securities in electronic form.

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May/June 2024

32. What are the twin objectives for banks in offering "Other Products/Services" like wealth management and distribution of third-party products?

(A) To primarily meet new regulatory compliance rules and reduce overall operational risk.

(B) To satisfy diverse customer needs while augmenting the bank's fee-based income.

(C) To increase market share in corporate lending and improve treasury operations.

(D) To decrease the daily workload of employees and fully automate all branch functions.

Ans :

(B) To satisfy diverse customer needs while augmenting the bank's fee-based income.

Banks offer this broad range of additional services with two primary goals in mind. Firstly, they aim to satisfy the diverse and evolving financial needs of their customers beyond basic banking (customer satisfaction). Secondly, these services generate significant non-interest or fee-based income, which helps to diversify and augment the bank's overall revenue stream.

Oct/Nov 2017

33. In some private sector banks, what percentage of their total revenues can be generated from fee-based business activities?

(A) Up to 10%

(B) Above 50%

(C) Up to 25%

(D) Up to 40%

Ans :

(B) Above 50%

The text highlights the significant revenue potential of fee-based services, especially in the private sector. It states that some banks in the private space generate revenues of "above 50% of their total revenues from fee-based business." This underscores the attractiveness of these services as a core component of the business model for modern banks.

May/June 2006

34. Which statement is true regarding the availability of certain financial services in Public Sector Banks (PSBs) as compared to new generation private and foreign banks?

(A) Services like Wealth Management and PMS are not yet offered by any PSBs.

(B) PSBs are pioneers in offering Wealth Management and Portfolio Management Services.

(C) Almost all PSBs offer a complete bouquet of services including Payment Gateway and Broking Services.

(D) Foreign banks and PSBs offer an identical range of third-party products.

Ans :

(A) Services like Wealth Management and PMS are not yet offered by any PSBs.

The text notes a gap in the service offerings of PSBs compared to their private and foreign counterparts. It specifically mentions that "Wealth Management, Portfolio Management Services are not offered by any of the PSBs till now," although it suggests this may change in the future. New private and foreign banks offer a more complete bouquet.

Oct/Nov 2011

35. Which product development approach involves creating a product based on market conditions and customer segments without any background research, often by emulating a market leader's offerings?

(A) In-house research and market dynamics approach

(B) The Top Management instruction-based model

(C) The 'follow the leader' approach

(D) The hybrid cross-pollination approach

Ans :

(C) The 'follow the leader' approach

The 'follow the leader' approach is a reactive method of product development. Instead of conducting independent research, a bank develops its products on the same lines as a competitor, typically the market leader. This method is based on the assumption that the leader has already done the necessary research and identified a viable market need.

May/June 2015

36. Assertion (A): In most PSBs, the views and instructions of the Top Management are the prime drivers of product development.

Reason (R): In the product development process at PSBs, geography is given high importance, while the type of branch and business potential are secondary.

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(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(C) (A) is true but (R) is false.
Assertion (A) is true; the text states that Top Management's views are prime drivers for product development in PSBs. However, Reason (R) is false. The text explicitly mentions that in the development process at PSBs, "geography is not given importance but type of branch and centre and business potential are given due importance."

Oct/Nov 2020

37. Arrange the steps of the fundamental approach to product development in the correct sequence.
i. Pilot testing to a sample universe
ii. Fine-tuning the product based on feedback
iii. Conducting a market survey about need levels
iv. Final roll out of the product across targeted segments
v. Developing the product
(A) i, iii, v, ii, iv
(B) iii, i, v, iv, ii
(C) iii, v, i, ii, iv
(D) v, iii, i, ii, iv

Ans :

(C) iii, v, i, ii, iv
The fundamental product development process follows a logical sequence. It begins with a market survey to identify needs (iii), followed by the actual development of the product (v). The new product is then pilot tested (i), and feedback is used to fine-tune it (ii). Finally, the refined product is launched for all targeted segments (iv).

May/June 2022

38. From which three dimensions is the processing of products and services in retail banking approached?
(A) Approaches divided into centralized, regional, and local branch-level processing
(B) Entirely in-house, entirely outsourced, or a hybrid mix of the two models
(C) Processing methods categorized as manual, semi-automated, or fully-automated systems
(D) Dimensions based on product-wise, customer-wise, and specific channel-wise processing

Ans :

(B) Entirely in-house, entirely outsourced, or a hybrid mix of the two models
The text outlines that the processing of products and services is fundamentally approached from three dimensions concerning sourcing. These are: the entire process is done through in-house resources; some products are processed in-house while for others the process is outsourced; and the entire process is outsourced subject to prescribed standards.

Oct/Nov 2007

39. A foreign bank operating in India wants to offer a full range of retail banking services. To maintain a lean organizational structure and leverage specialized expertise, it decides to partner with a third-party firm to handle all its processing activities, from loan applications to account maintenance. Which processing model is this bank adopting?
(A) Processing all retail banking activities using only the bank's in-house resources.
(B) Partial outsourcing limited to only a few specific, non-core process areas.
(C) A decentralized model of standalone processing conducted at the branch level.
(D) Outsourcing the complete process to a dedicated third-party back office.

Ans :

(D) Outsourcing the complete process to a dedicated third-party back office.
The scenario describes a model where the entire gamut of retail banking services is handled externally. The text specifies that in foreign banks, "the entire process is outsourced and normally happens through a dedicated back office covering the entire gamut of retail banking services." This aligns perfectly with the bank's decision in the case.

May/June 2009

40. What are Centralized Retail Assets Processing Centres (CRAPCs)?
(A) Centralized units that process all retail loans sourced from various channels
(B) Regional hubs designed to cater only to a specific, predefined cluster of branches

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(C) Standalone processing units that are physically located within each individual branch
(D) Specialized back offices that are responsible for handling only liability product processing

Ans :

(A) Centralized units that process all retail loans sourced from various channels
Centralized Retail Assets Processing Centres, often abbreviated as CRAPCs, represent a processing model where all retail loan applications, regardless of their source (branch or marketing team), are funneled to a single, central location for processing and sometimes financing. This model aims to standardize processes, improve efficiency, and ensure better control over the lending function.

Oct/Nov 2016

41. Which of the following pairs incorrectly matches the bank type with its typical retail asset processing model?
(A) Foreign Banks : Centralized processing is the standard norm for all operations
(B) New Generation Private Banks : A blended model combining centralized and regional hubs is used
(C) Public Sector Banks : Centralized processing is now the fully implemented universal norm
(D) Old Generation Private Banks : A standalone model at the branch level is mainly followed

Ans :

(C) Public Sector Banks : Centralized processing is now the fully implemented universal norm
The text indicates that while PSBs are implementing the centralized model, it is being done "in a phased way" and the "level of implementation... is low." Many PSBs still use a mix of regional hubs and branch-level processing. Therefore, stating that centralized processing is fully and universally implemented in PSBs is incorrect.

May/June 2016

42. In the context of liability products, what is meant by "tangibilizing the service nature into a product nature"?
(A) Creating physical deliverables like passbooks and cards to make a service tangible
(B) The strategy of offering significantly higher interest rates on standard savings accounts
(C) A policy of providing all customer service exclusively through physical bank branches
(D) An automated process of converting a savings account into a fixed deposit account

Ans :

(A) Creating physical deliverables like passbooks and cards to make a service tangible
A bank account is fundamentally an intangible service. The process of "tangibilization" involves creating the physical items that make the service usable and feel like a concrete product to the customer. This includes the issuance of a passbook for transaction records, a cheque book for payments, and an ATM/Debit card for electronic access.

Oct/Nov 2013

43. What is the norm for processing liability products like savings accounts in almost all Public Sector Banks (PSBs)?
(A) Centralized processing at a single national center.
(B) Regional processing hubs for each state.
(C) Fully outsourced processing to a third-party vendor.
(D) A standalone processing model at the branch level.

Ans :

(D) A standalone processing model at the branch level.
The text clearly states that "In almost all PSBs, standalone processing model is the norm for processing liability products." Activities like account opening, KYC compliance, and cheque book issuance are typically handled at the branch itself. The only common exception mentioned is the central issuance of ATM/Debit cards in almost all banks.

May/June 2021

44. Statement I: Opening a fixed deposit and issuing a receipt is an example of single-stage processing.
Statement II: Processing a housing loan is an example of multi-stage processing.
(A) Only Statement I is correct.
(B) Only Statement II is correct.
(C) Both Statement I and Statement II are correct.
(D) Both Statement I and Statement II are incorrect.

NODIA

Ans :

(C) Both Statement I and Statement II are correct.
The text provides these specific examples to differentiate between processing complexities. Opening a fixed deposit is a straightforward, single-stage action. In contrast, a housing loan involves multiple complex stages like application, appraisal, legal verification, valuation, sanction, and disbursement, making it a multi-stage process. Both statements are correct illustrations of the concepts.

Oct/Nov 2024

45. A PSB is struggling with inconsistent turnaround times for its personal loan applications, which are currently processed at individual branches. To improve efficiency and provide a uniform customer experience, the management is considering a new system. Which process model would be the most logical step up from their current standalone model?

(A) Continuing with the standalone branch-level processing model.
(B) Outsourcing the entire process to a foreign bank.
(C) Establishing regional processing hubs to cater to clusters of branches.
(D) Shifting to a manual, paper-based processing system.

Ans :

(C) Establishing regional processing hubs to cater to clusters of branches.
Moving from a completely decentralized, standalone model to establishing regional processing hubs is a logical evolution. This allows the bank to gain some benefits of centralization, like standardization and specialization, without the massive overhaul required for a single national center. It is a common intermediate step for PSBs seeking to improve process efficiencies for retail assets.

May/June 2005

46. According to the text, what is the typical prescribed process time for retail asset products in most Public Sector Banks (PSBs)?

(A) A uniform time of 24 hours for all products.
(B) A fixed period of 30 days for all loans.
(C) It is not prescribed and is left to the discretion of the branch manager.
(D) It varies from 2 days to 15 days.

Ans :

(D) It varies from 2 days to 15 days.
The text mentions that most PSBs have prescribed process times for different asset products. It specifies that in most of these banks, "the process time is prescribed and varies from 2 days to 15 days depending upon whether it is processed at the branch or regional hub or centralised processing."

Oct/Nov 2012

47. A south-based PSB has implemented the "Six Sigma Quality Implementation Model." What does the application of this model imply for its operations?

(A) The bank has adopted a rigorous, data-driven methodology to minimize defects and improve processes.
(B) A singular focus on expanding its physical presence by increasing the total number of branches.
(C) A strategic decision to limit its retail loan offerings to exactly six specific product types.
(D) A pricing policy where its interest rates are consistently maintained at six percent above competitors.

Ans :

(A) The bank has adopted a rigorous, data-driven methodology to minimize defects and improve processes.
Six Sigma is a globally recognized quality management methodology. Its implementation signifies a commitment to process improvement by using statistical methods to identify and eliminate defects or errors. By mentioning that process time "also finds a place" in this model, the text implies the bank is using this rigorous approach to optimize its service delivery timelines.

May/June 2017

48. How does the process time structuring in new private sector and foreign banks differ from that in PSBs?

(A) Process time is generally longer and less defined in new private and foreign banks.
(B) In new private and foreign banks, process time is structured by asset type, with a clear distinction between sanction and disbursement time.

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(C) In PSBs, process time is clearly structured based on the type of asset, which is not the case in new private banks.
(D) PSBs have a uniform process time of 2 days for all assets, while it varies in other banks.

Ans :

(B) In new private and foreign banks, process time is structured by asset type, with a clear distinction between sanction and disbursement time.
New private sector and foreign banks, which typically use centralized processing, structure their process times more granularly. The time is based on the specific asset type, and they make a clear distinction between the time taken to approve (sanction) the loan and the time taken for the actual release of funds, reflecting a more detailed process management.

Oct/Nov 2008

49. Which of the following are listed as fundamental parameters that are factored into a bank's pricing model?
i. Market dynamics and risk perception
ii. Return expectations and tenor/duration
iii. Asset liability management positions
iv. The bank's corporate social responsibility budget
(A) i and ii only
(B) i, ii, and iii only
(C) ii, iii, and iv only
(D) i, ii, iii, and iv

Ans :

(B) i, ii, and iii only
The text lists several fundamental parameters for pricing models: market dynamics, risk perception, return expectations, tenor/duration, resources position, asset liability management (ALM) positions, and customer profile. Regulatory advices also play a role. The corporate social responsibility budget is not mentioned as a direct input into the product pricing model.

May/June 2025

50. Assertion (A): In PSBs, pricing for retail products is mainly driven by the asset liability management (ALM) practices of the bank.
Reason (R): PSBs do not face any competition and can set prices without considering market dynamics.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(C) (A) is true but (R) is false.
Assertion (A) is true; the text states that in PSBs, pricing is "mainly driven on the basis of the asset liability management practices of the banks." However, Reason (R) is false. The text also mentions that PSB pricing is "market driven and competitive," directly contradicting the idea that they operate without competition.

Oct/Nov 2019

51. A bank launches a new housing loan scheme with a very low fixed interest rate for the first 3 years, after which the rate converts to a floating, market-related rate. The bank's goal is to attract new customers and also encourage customers from other banks to switch. What is this pricing strategy called?
(A) Standalone pricing
(B) Price bundling
(C) A structured step-up pricing model
(D) A concealed price structure

Ans :

(C) A structured step-up pricing model
This scenario perfectly describes the structured step-up pricing model mentioned in the text. This strategy involves offering an initially low and attractive "teaser" rate to capture new business and encourage migration from competitors. After the initial period (e.g., 3 years), the rate "steps up" or switches over to the prevailing market-related pricing.

May/June 2011

52. What is the primary objective of "price bundling" as a structuring strategy?
(A) To ensure every product and service is sold individually with its own separate, standalone price tag.
(B) To establish a single, uniform price point for all retail loan products, regardless of their type or tenor.
(C) To create a system of providing special, preferential price quotes only for high-value deposit accounts.

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(D) To offer a holistic price for a package of products that is more attractive than their individual prices combined.

Ans :

(D) To offer a holistic price for a package of products that is more attractive than their individual prices combined.
Price bundling involves offering a holistic pricing proposition across a specific bundle of products and services. The goal is to make the total price of the package more appealing than the sum of the standalone prices of the individual components. This is a cross-selling strategy designed to entice the customer to avail more products.

Oct/Nov 2005

53. Which of the following pricing strategies is noted as not being adopted in a big way by Public Sector Banks (PSBs)?
(A) Price concessions based on volume
(B) Rebates on completing the repayment schedule
(C) Price bundling
(D) Standalone pricing for different products

Ans :

(C) Price bundling
The pill observed that while PSBs use price concessions and rebates as part of their pricing structure, "Price bundling is not adopted in a big way by PSBs." In contrast, new private sector and foreign banks are mentioned as actively using aggressive bundled pricing structures to cross-sell effectively.

May/June 2020

54. Which of the following is an example of a "concealed price structure" used as an alternate pricing proposition?
(A) Charging a higher processing fee for a loan.
(B) Offering free remittance facilities or waiving service charges.
(C) Increasing the interest rate on a credit card.
(D) Publishing a detailed schedule of all applicable charges.

Ans :

(B) Offering free remittance facilities or waiving service charges.
Concealed price structures are indirect pricing benefits offered in lieu of direct discounts. Instead of lowering a stated price, a bank offers additional facilities for free, such as remittances, demand drafts, or waives certain charges like processing fees. These act as a "tag on" to quantum and volume business, enhancing the value proposition for the customer.

Oct/Nov 2010

55. Match the bank type (List-I) with its predominantly adopted technology model (List-II).
List-I
P. Public Sector Banks
Q. Old Private Sector Banks
R. New Private Sector Banks
S. Foreign Banks
List-II
1. Predominantly outsourced with partial in-house model
2. Mostly outsourced model
3. Primarily in-house models with partial outsourcing
4. Outsourced model to migrate to Core Banking

Code:
(A) P-3, Q-4, R-1, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-3, R-1, S-4

Ans :

(A) P-3, Q-4, R-1, S-2
The text specifies the typical technology models: PSBs use primarily in-house models with some outsourcing (P-3). Old private banks adopted an outsourced model mainly to facilitate the large-scale migration to Core Banking (Q-4). New private banks use a predominantly outsourced model with some in-house components (R-1). Foreign banks mostly adopt a fully outsourced model (S-2).

May/June 2007

56. A PSB's IT department is presented with two options for a new software package. Option 1 is total in-house development by the bank's own team. Option 2 involves procuring the software from a vendor, with the bank's team handling only the implementation. According to the text, what is the primary factor that would differ between these two options?
(A) The cost factor
(B) The level of security

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(C) The end-user interface
(D) The regulatory approval process

Ans :

(A) The cost factor
The text directly compares these two scenarios. It states that "in case of total, in house development, the cost factor will be favourable while in the second model [development by vendor], cost factor matters." This indicates that the primary trade-off and differentiating factor between building versus buying the technology solution is the cost involved.

Oct/Nov 2022

57. What was the correct evolutionary path of technology implementation in Public Sector Banks (PSBs)?
(A) Core Banking → ALPMs → Total Branch Automation → Regional Hubs
(B) Regional Hubs → Core Banking → ALPMs → Total Branch Automation
(C) ALPMs → Total Branch Automation → Regional Networked Hubs → Core Banking Solutions
(D) Total Branch Automation → Regional Hubs → ALPMs → Core Banking

Ans :

(C) ALPMs → Total Branch Automation → Regional Networked Hubs → Core Banking Solutions
The text outlines the technological journey of PSBs starting from the early days of computerization. The progression began with standalone Automated Ledger Posting Machines (ALPMs), graduated to Total Branch Automation, then moved to connecting branches in Regional Networked Hubs, and finally culminated in the implementation of comprehensive Core Banking Solutions for a single, integrated platform.

May/June 2014

58. The implementation of core banking gives clues about the level to which a bank's database is organized. What does it mean if the database is "vertically organized"?
(A) Data is available customer-wise on an integrated basis.
(B) Data is available product-wise on a standalone basis.
(C) Data is organized chronologically by transaction date.
(D) Data is stored separately in each branch without any central integration.

Ans :

(A) Data is available customer-wise on an integrated basis.
The text defines the distinction between horizontal and vertical organization of a database. A vertically organized database means that data is available customer-wise on an integrated basis. This provides a single, unified view of the customer across all their products and relationships with the bank, which is a key enabler for modern retail banking strategies.

Oct/Nov 2009

59. According to the discussion on sustainable retail banking models of the future, what are the two core strengths that define a bank's retail business model?
(A) A large number of physical branches and a long corporate history.
(B) Aggressive marketing campaigns and low employee attrition.
(C) High profitability in treasury operations and a strong B2B focus.
(D) A clear customer centricity and a strong value chain focus.

Ans :

(D) A clear customer centricity and a strong value chain focus.
The text identifies two fundamental pillars for future-proof retail banking models. The first is a clear focus on the customer (customer centricity), enabling differentiation through effective customer access and meeting journey requirements. The second is a strong focus on the value chain, allowing banks to maintain a competitive advantage through effective resources and competences.

May/June 2023

60. Which of the following is an example of a business model archetype for a value chain-focused bank?
(A) A supermarket serving self-directed customers.
(B) A product specialist that is a leader in specific product categories.
(C) A trusted advisor targeting service-oriented individuals.
(D) An ecosystem with a broad, potentially non-banking offering.

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Ans :

(B) A product specialist that is a leader in specific product categories.
The text describes three archetypes for value chain-oriented banks. One of these concentrates on products for end customers and becomes a leader in specific categories, thus acting as a "product specialist." The other options listed (supermarket, trusted advisor, ecosystem) are described as examples of customer-centric business models, not value chain-focused ones.

Oct/Nov 2018

61. Which of the following is NOT a major point of distinction between Retail Banking and Corporate/Wholesale Banking?
(A) The target customer segment (Individual vs. Corporate).
(B) The business approach (B2C vs. B2B).
(C) The use of technology in banking operations.
(D) The typical ticket size of loans (Low vs. High).

Ans :

(C) The use of technology in banking operations.
The text provides a detailed list of differences between retail and corporate banking, including target segment, business approach, ticket size, risk profile, returns, and cost of deposits. While the application of technology may differ, its fundamental use is pervasive in both segments of modern banking and is not listed as a primary point of distinction.

May/June 2012

62. Consider the following statements comparing Retail and Corporate Banking:
i. Retail banking is a mass-market model, while corporate banking targets a relatively smaller client base.
ii. The business approach of retail banking is B2B (Business to Business).
iii. The ticket size of loans in corporate banking is typically low.
Which of the above statements is/are correct?
(A) i only
(B) i and ii only
(C) ii and iii only
(D) i, ii, and iii

Ans :

(A) i only
Statement (i) is correct; retail banking is a mass-market model, whereas corporate banking focuses on a smaller segment of business clients. Statement (ii) is incorrect; retail banking is B2C (Business to Customer). Statement (iii) is also incorrect; the ticket size of loans in corporate banking is high, not low.

Oct/Nov 2014

63. "Risk is widespread in retail banking as customer base is large whereas in corporate banking, the risk is more as the ticket size is big though customer base is relatively small."
According to the excerpt, why is risk in corporate banking considered to be 'more'?
(A) Because the ticket size of each loan is big.
(B) Because the customer base is very large.
(C) Because monitoring and recovery are more laborious.
(D) Because the cost of deposits is higher.

Ans :

(A) Because the ticket size of each loan is big.
The source directly contrasts the nature of risk in the two segments. It states that in retail banking, risk is 'widespread' due to the large customer base. In corporate banking, the risk is considered 'more' (implying more concentrated or impactful) specifically because the "ticket size is big," even though the customer base is small.

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May/June 2019

64. Why are the returns (spreads) generally higher in retail banking compared to corporate banking?
(A) Because retail loans have a much higher default rate.
(B) Because corporate clients bargain for lower rates due to their higher loan amounts.
(C) Because the operational cost of servicing retail loans is zero.
(D) Because retail banking does not involve any risk.

Ans :

(B) Because corporate clients bargain for lower rates due to their higher loan amounts.
The text explains that returns are lower in corporate banking because corporate clients, due to the large volume and high value of their borrowings (higher loan amount), have significant bargaining power. They can negotiate for lower interest rates (finer rates), which

squeezes the bank's spread. In contrast, individual retail borrowers have minimal bargaining power.

Oct/Nov 2006

65. Assertion (A): Monitoring and recovery of assets are more laborious in retail banking than in corporate banking.
Reason (R): The customer base in retail banking is significantly larger than in corporate banking.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is a stated fact in the comparison. Reason (R) provides the direct cause. The process of monitoring thousands or millions of small-ticket retail loans and initiating recovery actions for them is inherently more complex and resource-intensive (laborious) precisely because of the "larger customer base" involved, compared to managing a smaller portfolio of large corporate accounts.

May/June 2010

66. In the comparison of liability-side operations, why is the cost of deposits relatively lower in retail banking?
(A) Because the ticket size of individual retail deposits is small.
(B) Because retail deposits are of a very short duration.
(C) Because retail depositors are offered additional non-monetary benefits.
(D) Because interest on retail deposits is tax-exempt.

Ans :

(A) Because the ticket size of individual retail deposits is small.
The text points out that on the liability side, the cost of deposits in retail banking is relatively less. This is primarily because the "ticket size in retail deposits is small," and rates "mostly go along with the card rates." There is less pressure for higher, negotiated rates compared to corporate deposits where large ticket sizes lead to competitive pressure.

Oct/Nov 2025

67. A bank's annual risk report notes that the default of a single large corporate account had a more severe impact on its profitability than the combined defaults of 500 small retail loan accounts in the same period. This observation confirms which distinction between corporate and retail banking?
(A) The cost of deposits is higher in corporate banking.
(B) Monitoring is more laborious in retail banking.
(C) The impact of NPA is more pronounced in corporate banking due to higher ticket sizes.
(D) Returns are higher in retail banking.

Ans :

(C) The impact of NPA is more pronounced in corporate banking due to higher ticket sizes.
This case directly illustrates the principle that the impact of a Non-Performing Asset (NPA) is more severe in corporate banking. Even though the number of defaults might be lower, the high value (ticket size) of a single corporate loan means its failure can have a disproportionately large negative impact on the bank's financials compared to many small retail NPAs.

May/June 2018

68. Consider the following statements comparing Retail and Corporate Banking:
i. Retail banking is B2C, while Corporate banking is B2B.
ii. Loan ticket size is high in retail and low in corporate.
iii. Risk is widespread in retail and concentrated in corporate.
iv. Returns are lower in retail and higher in corporate.
v. NPA impact is more pronounced in corporate than in retail.
Which combination of statements is correct?
(A) i, ii, iii
(B) i, iii, v
(C) ii, iv, v
(D) i, iv, v

Ans :

(B) i, iii, v
Statement (i) is correct (B2C vs B2B). Statement (ii) is incorrect; it's the opposite (low in retail, high in corporate). Statement (iii) is correct

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(widespread vs concentrated risk). Statement (iv) is incorrect; it's the opposite (higher returns/spreads in retail, lower in corporate). Statement (v) is correct (NPA impact is more pronounced in corporate).

Oct/Nov 2021

69. "In light of the current challenges, retail banks need to focus on their strengths. There are two core strengths that define a bank's retail business model: first, a clear customer centricity and second, a strong value chain focus."
Based on the provided text, what should a retail bank prioritize to build a sustainable business model for the future?
(A) Prioritizing the expansion of its international operations and corporate lending portfolio.
(B) Choosing to focus on either customer-facing capabilities or internal processes exclusively.
(C) Concentrating on strong customer relationships and an efficient operational value chain.
(D) Systematically reducing its overall investment in technology to achieve lower operational costs.

Ans :

(C) Concentrating on strong customer relationships and an efficient operational value chain.
The source explicitly identifies "a clear customer centricity" and "a strong value chain focus" as the two core strengths for a sustainable retail banking model. Therefore, a bank should prioritize both developing strong customer relationships (customer centricity) and ensuring its internal processes and resources are efficient and effective (value chain focus).

May/June 2008

70. Which of the following statements about product development in retail banking is incorrect?
(A) Product development can be based on specific customer segments like NRI, HNI, or Salaried Professionals.
(B) In PSBs, geography is the most important factor, while branch type and business potential are given less importance.
(C) A common model for product development is simply following the instructions of Top Management without background research.
(D) In private sector banks, product development is done independently, incorporating market dynamics and segmentation.

Ans :

(B) In PSBs, geography is the most important factor, while branch type and business potential are given less importance.
This statement is the opposite of what is mentioned in the text. For product development in PSBs, it is clearly stated that "geography is not given importance but type of branch and centre and business potential are given due importance."
The other statements are accurate descriptions of different product development approaches and practices.

Oct/Nov 2015

71. The text mentions that a bank's business process structure can be 'horizontal' or 'vertical'. What fundamental factor determines whether a model is considered horizontal or vertical?
(A) The number of branches the bank has.
(B) The geographical spread of the bank's operations.
(C) The seniority of the management team in charge of retail banking.
(D) The level of customer information available in a single platform across products.

Ans :

(D) The level of customer information available in a single platform across products.
The choice between a horizontal or vertical model hinges on data integration. The text specifies that the model "depends on the level of customer information available in a single platform in the data base side for offering multiple products/services." A vertical model implies high integration (customer view), while a horizontal model implies low integration (product view).

May/June 2013

72. Which of the business approaches in retail banking involves designing strategies based on the type of branch, such as Rural, Semi-Urban, Urban, and Metro?
(A) Classification-based Approach
(B) Segmented Approach
(C) Geography-based Approach
(D) Holistic Corporate Approach

Ans :

(A) Classification-based Approach

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The Classification-based approach is defined as the method where strategies are designed based on the official classification of a branch. This allows the bank to structure products and services that are specifically suited to the needs and characteristics of customers in rural, semi-urban, urban, or metro areas, leading to better product-market fit.

Oct/Nov 2023

73. What is the core idea of a "hybrid cross pollination" approach in product development?
(A) Developing a product purely based on a competitor's product.
(B) Launching a product based solely on instructions from top management.
(C) Combining the best features of existing products with additional value engineering.
(D) Creating a product based on market conditions without any research.

Ans :

(C) Combining the best features of existing products with additional value engineering.
Hybrid cross-pollination is a sophisticated form of in-house product development. It involves researching the market to identify the best features available in existing products (both from competitors and internally) and then incorporating them into a new, hybrid product. This is often enhanced with "additional value engineering" to create a superior offering.

May/June 2024

74. "In private sector banks, both old and new, product development is done in house independently, incorporating the market dynamics, segmentation, classification, customer segments and the product positioning adopted by other players."
According to the source, what distinguishes the product development process in private sector banks?
(A) It is a comprehensive process that considers multiple internal and external factors.
(B) It relies solely on the 'follow the leader' approach.
(C) It completely ignores the product positioning of other players in the market.
(D) It is primarily driven by top management directives without any market analysis.

Ans :

(A) It is a comprehensive process that considers multiple internal and external factors.
The source describes the process in private banks as a multi-faceted one. It is not based on a single factor but incorporates a wide range of inputs: market dynamics, various forms of segmentation (classification, customer type), and a crucial awareness of competitor strategy ("product positioning adopted by other players"). This points to a comprehensive and strategic approach.

Oct/Nov 2017

75. Which of the following pairs correctly matches the processing stage with its nature?
(A) Giving a car loan : Multi-stage processing
(B) Opening a Savings Account : Single-stage processing
(C) Processing a Housing Loan : Single-stage processing
(D) Opening a Fixed Deposit : Single-stage processing

Ans :

(D) Opening a Fixed Deposit : Single-stage processing
The text uses specific examples to illustrate the concept. Opening a fixed deposit and issuing a receipt is cited as a simple, single-stage process. In contrast, opening a savings account (which involves KYC, and issuance of multiple items) and processing a housing loan are given as examples of more complex, multi-stage processing.

May/June 2006

76. Why is "process time" considered a major differentiator in retail banking operations?
(A) Because a longer process time allows for more thorough credit checks.
(B) Because it directly impacts customer satisfaction and reflects the bank's efficiency.
(C) Because it is a key factor in regulatory audits.
(D) Because it is the primary determinant of the interest rate charged.

Ans :

(B) Because it directly impacts customer satisfaction and reflects the bank's efficiency.
Process time is described as both business-sensitive and customer-sensitive. A quicker process time leads to higher delivery efficiencies

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and greater customer recognition and satisfaction. It is a tangible reflection of the bank's internal confidence and process efficiencies, making it a critical competitive differentiator in a crowded market where speed of service is highly valued.

Oct/Nov 2011

77. In new private sector and foreign banks, what is the standard model for asset processing that influences their process time structure?
(A) Standalone branch-level processing
(B) A mix of regional and branch-level processing
(C) Centralised processing
(D) Manual processing without technological aids

Ans :

(C) Centralised processing
The text states that in new private sector and foreign banks, "centralised processing is the standard model adopted by these banks." This centralized approach allows them to structure their process time based on the type of asset and achieve higher efficiencies, clearly demarcating stages like sanction and disbursement.

May/June 2015

78. All of the following are examples of price structuring methods used by banks EXCEPT:
(A) Standalone pricing for individual products.
(B) Special quotes and concessional rates for high-value relationships.
(C) Price bundling to offer a holistic proposition.
(D) Random pricing determined daily by the branch manager.

Ans :

(D) Random pricing determined daily by the branch manager.
Banks use systematic models for pricing. The methods mentioned include standalone pricing, fine-tuning with rebates/concessions based on quantum and volume (e.g., special quotes), and price bundling. Pricing is a strategic function based on multiple parameters; it is not determined randomly at the branch level on a daily basis.

Oct/Nov 2020

79. "Technology is the foundation on which the retail banking edifice is built across the globe. Technology is the enabler for building and translating a customer data base into retail banking business."
What is the fundamental role of technology in retail banking as described in the excerpt?
(A) It is a foundational element that enables the conversion of customer data into business.
(B) It is an optional tool used primarily for marketing.
(C) Its main purpose is to replace all human interaction in banking.
(D) It is a legacy system that is being phased out in favor of manual processes.

Ans :

(A) It is a foundational element that enables the conversion of customer data into business.
The source uses strong metaphors like "foundation" and "edifice" to describe technology's role. It is not optional but fundamental. The text explicitly states that technology is the "enabler" for the critical process of "building and translating a customer data base into retail banking business," highlighting its central, strategic importance in modern retail banking.

May/June 2022

80. Which of the following statements regarding technology models in banking is incorrect?
(A) Most PSBs use primarily in-house models, sometimes with a vendor for development.
(B) New private sector banks rely completely on in-house development with no outsourcing.
(C) Old private sector banks followed an outsourced model mainly to facilitate the large-scale migration to Core Banking.
(D) Foreign banks mostly adopt an outsourced model for their technology platforms.

Ans :

(B) New private sector banks rely completely on in-house development with no outsourcing.
This statement is incorrect. The text specifies that for new private sector banks, the model is "predominantly outsourced with partial in-house model." This indicates a hybrid strategy, not a complete reliance on in-house development. The other statements accurately reflect the technology adoption patterns of PSBs, old private banks, and foreign banks.

Oct/Nov 2007

81. In the context of sustainable retail banking, what is a "utility bank"?
(A) A bank that focuses only on providing services to public utility companies.

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(B) A value chain-focused bank that can cover a broad range of B2B customer needs.
(C) A customer-centric bank that operates like a supermarket for financial products.
(D) A bank that specializes in a single product category for end customers.

Ans :

(B) A value chain-focused bank that can cover a broad range of B2B customer needs.
The text describes archetypes of value chain-focused banks. Two of these focus on processes. One type, the "utility bank," positions itself to serve a wide spectrum of Business-to-Business (B2B) customer needs, effectively acting as a process utility for other businesses. This is distinct from a product specialist or a customer-centric model.

May/June 2009

82. Statement I: In the retail vs. corporate banking distinction, retail banking is a B2C approach.
Statement II: In the retail vs. corporate banking distinction, corporate banking is a B2B approach.
(A) Only Statement I is correct.
(B) Only Statement II is correct.
(C) Both Statement I and Statement II are correct.
(D) Both Statement I and Statement II are incorrect.

Ans :

(C) Both Statement I and Statement II are correct.
The text explicitly makes this distinction. Retail Banking, which targets individual customers, is a Business-to-Customer (B2C) approach. Corporate or Wholesale Banking, which deals mainly with corporate clients, is a Business-to-Business (B2B) approach. Both statements accurately represent this fundamental difference between the two banking segments.

Oct/Nov 2016

83. Why is the pressure for finer (lower) rates on deposits less in retail banking compared to corporate banking?
(A) Because retail banking involves a smaller customer base.
(B) Because retail deposits are insured, while corporate deposits are not.
(C) Because the large customer base in retail banking reduces the bargaining power of any single depositor.
(D) Because interest rates on retail deposits are set by the government.

Ans :

(C) Because the large customer base in retail banking reduces the bargaining power of any single depositor.
The summary section explains this dynamic. In retail banking, the customer base is large, and individual deposit amounts are small. This diffusion of the deposit base means no single customer has enough leverage to bargain for higher rates. In corporate banking, large deposits give clients significant bargaining power, creating pressure for finer rates.

May/June 2016

84. "Horizontally organized model is mostly product oriented with common customer information for some products. In predominantly, vertically organized model, common information is available for most of the products."
Based on the source, what is the key difference between a Predominantly Horizontally Organised Model and a Predominantly Vertically Organised Model?
(A) The number of products offered by the bank.
(B) The geographical location of the bank's headquarters.
(C) The type of technology platform used for core banking.
(D) The extent of common customer information available across products.

Ans :

(D) The extent of common customer information available across products.
The source directly contrasts the two models based on data integration. The Predominantly Horizontally Organised model has common information for only "some" products, reflecting its product-centric nature. In contrast, the Predominantly Vertically Organised model has common information available for "most" of the products, indicating a much higher degree of customer-centric data integration.

Oct/Nov 2013

85. Which of the following services enhances the customer experience by providing additional service tools to the basic products?
(A) Distribution of third-party life insurance policies.
(B) Retail sale of gold coins.

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(C) Internet Banking and Mobile Banking.
(D) Portfolio Management Services.

Ans :

(C) Internet Banking and Mobile Banking.
The text categorizes "Other Products/Services" into different sets. Internet Banking and Mobile Banking are listed as part of a set of products that "enhance the service experiences of the customers by providing process and delivery efficiencies by additional service tools to the basic products." The other options are examples of third-party product distribution or specialized fee-based services.

May/June 2021

86. Which of the following is a correct statement regarding the characteristics of retail deposits?
(A) They are highly interest-sensitive and require constant rate negotiation.
(B) They constitute low-cost funds for the banks.
(C) They are unstable and are not considered part of a bank's core deposits.
(D) They require minimal customer relationship management.

Ans :

(B) They constitute low-cost funds for the banks.
The text summarizes the key characteristics of retail deposits. It explicitly states that they "constitute low cost funds for the banks." It also mentions that they are stable (core deposits), interest insensitive, and require effective customer relationship management to maximize wallet share, making the other options incorrect.

Oct/Nov 2024

87. What is the strategic implication for a bank that successfully implements a Predominantly Vertically Organised (PVO) business process model?
(A) The bank's ability to offer new products will be severely limited.
(B) The bank will have to rely exclusively on branch-level processing.
(C) The bank will primarily focus on corporate clients and reduce its retail operations.
(D) The bank's scope for cross-selling and up-selling will be significantly enlarged.

Ans :

(D) The bank's scope for cross-selling and up-selling will be significantly enlarged.
The PVO model is characterized by having common customer information available for most products. The text directly links this feature to a strategic benefit: "thereby enlarging the scope for cross selling and up selling." A holistic view of the customer relationship enables the bank to identify and target needs for additional products and services more effectively.

May/June 2005

88. What does the term "standalone pricing" refer to in the context of price structuring?
(A) The basic structure where a separate price is determined for each individual product or service.
(B) A pricing strategy where the price is set in isolation from market competition.
(C) A special price offered only to customers who have a single product with the bank.
(D) A pricing model that remains fixed and does not change with market dynamics.

Ans :

(A) The basic structure where a separate price is determined for each individual product or service.
The text introduces "Standalone pricing for different products and services" as the "basic structure" for price structuring. This is the foundational approach where each product is priced individually, as opposed to more complex strategies like price bundling, where a holistic price is offered for a package of multiple products.

Oct/Nov 2012

89. Which type of bank is mentioned as generally following a Vertically Organised Model for its retail banking business structure?
(A) Public Sector Banks
(B) Old Private Sector Banks
(C) New Private Sector Banks
(D) Cooperative Banks

Ans :

(C) New Private Sector Banks
The text provides a breakdown of the typical models used by different bank types. It explicitly states that "New private sector banks generally follow a vertically organized model." This customer-centric data model gives them an advantage in offering integrated services and contrasts with the horizontally organized model commonly found in PSBs.

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May/June 2017

90. All of the following are listed as advantages of a strong retail asset portfolio for a bank EXCEPT:
(A) Risk concentration on a few single borrowers.
(B) Better spreads in income.
(C) Risk diversification.
(D) Stability of the asset base due to a large customer base.

Ans :

(A) Risk concentration on a few single borrowers.
A strong retail asset portfolio leads to risk diversification, not concentration. The text highlights that a "diversified portfolio due to huge customer base enables bank to reduce their dependence on few or single borrower." Risk concentration is a characteristic of a corporate-heavy loan book, which retail banking helps to mitigate.

Oct/Nov 2008

91. Statement I: A bank that offers a broad range of B2B services to other businesses is known as a 'utility bank'.
Statement II: A bank that targets service-oriented individuals with a broad customer range is known as a 'trusted advisor'.
(A) Only Statement I is correct.
(B) Only Statement II is correct.
(C) Both Statement I and Statement II are correct.
(D) Both Statement I and Statement II are incorrect.

Ans :

(C) Both Statement I and Statement II are correct.
The text on sustainable business models defines these archetypes. A 'utility bank' is a value-chain focused model serving broad B2B needs. A 'trusted advisor' is a customer-centric model targeting service-oriented individuals with a broad offering. Both statements accurately define their respective business model archetypes as described in the chapter.

May/June 2025

92. When a bank re-engineers its fixed deposit product to include a built-in overdraft facility, what is the intended effect?
(A) To discourage customers from opening fixed deposits.
(B) To make the fixed deposit function more like a cash credit account, offering liquidity.
(C) To increase the lock-in period of the fixed deposit.
(D) To reduce the interest rate paid on the deposit.

Ans :

(B) To make the fixed deposit function more like a cash credit account, offering liquidity.
This product reengineering measure is designed to enhance customer convenience. By adding an overdraft facility, the bank transforms a rigid fixed deposit into a more flexible financial tool. It allows the account holder to access funds against their deposit without prematurely breaking it, making it function "more of a cash credit account than a fixed deposit."

Oct/Nov 2019

93. Assertion (A): Some banks offer group life cover and health cover on term deposits.
Reason (R): These insurance covers are normally offered to term deposits as they are structured as part of demand deposit accounts.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(D) (A) is false but (R) is true.
Assertion (A) is false. The text states that "group life cover and health cover are not normally offered to term deposits." Reason (R) correctly explains why this is the case: these covers are typically structured as part of demand deposit (e.g., savings) accounts due to operational reasons, not term deposits.

May/June 2011

94. Match the banking approach/model (List-I) with its primary characteristic (List-II).
List-I
P. Segmented Approach
Q. Horizontally Organised Model
R. Classification-based Approach
S. Vertically Organised Model
List-II
1. Strategies based on branch type (Rural, Urban, etc.)
2. Customer database orientation with centralized data
3. Modular, product-wise end-to-end solutions

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4. Branches classified by business potential for focused marketing

Code:
(A) P-4, Q-3, R-1, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-1, R-3, S-2
(D) P-2, Q-3, R-1, S-4

Ans :

(A) P-4, Q-3, R-1, S-2
The Segmented Approach (P) involves classifying branches by business potential (4). The Horizontally Organised Model (Q) is a modular, product-wise structure (3). The Classification-based Approach (R) uses branch types like Rural/ Urban for strategy design (1). The Vertically Organised Model (S) is defined by its customer-centric, centralized database (2).

Oct/Nov 2005

95. A bank's board reviews its retail loan portfolio and finds that loans to doctors, architects, and advocates have the lowest default rates. The board decides to launch a new, specialized loan product with preferential terms exclusively for these professionals to finance their professional requirements. This strategy is an example of:
(A) Targeting specific professional segments.
(B) Offering a standard retail asset product.
(C) Offering a loan against rental receivables.
(D) Providing a salary overdraft facility.

Ans :

(A) Targeting specific professional segments.
The case describes a bank structuring a retail loan product to meet the unique needs of a particular customer group. The text explicitly mentions that "Retail Loans are also structured by some banks to target specific professional segments like doctors, architects and advocates, etc, to finance their professional requirements." This is a niche targeting strategy.

May/June 2020

96. Which of the following accurately describes the product development process in a typical Public Sector Bank?
(A) It is always outsourced to external market research agencies.
(B) It is done in-house, factoring in market dynamics, but with Top Management's views being prime drivers.
(C) It is primarily driven by geographical factors and international market trends.
(D) It follows a rigid, unchangeable process defined by regulatory bodies.

Ans :

(B) It is done in-house, factoring in market dynamics, but with Top Management's views being prime drivers.
The text provides a nuanced view of product development in PSBs. It states that development is done in-house and incorporates market dynamics. However, it critically adds that "The views and instructions of the Top Management are the prime drivers of product development in PSBs," making this the most complete and accurate description.

Oct/Nov 2010

97. When a bank implements core banking solutions, it increases the availability of the customer database across products. What key strategic activities does this enhanced data availability directly facilitate?
(A) Reducing the number of physical branches.
(B) Cross-selling and up-selling other products.
(C) Increasing the interest rates on all loan products.
(D) Simplifying the process for opening corporate accounts.

Ans :

(B) Cross-selling and up-selling other products.
The text directly links the implementation of core banking to improved data availability. It then states that this "has also increased the scope for cross-selling and up-selling other products." Having an integrated view of a customer's holdings and transaction history allows the bank to intelligently offer additional, relevant products and services.

May/June 2007

98. "The fundamental approach to product development starts from conducting a market survey about the need levels and gap among the target group, identifying the needs, developing the product, pilot testing to a sample universe, getting feedback, fine tuning the product based on feedback and then the final roll out of the product across targeted segments."
Based on the source, what is the role of "pilot testing" in the product development process?

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(A) It is an intermediate step to test the product on a small scale and gather feedback for refinement.
(B) The final step in the process, involving the full launch of the product to the entire market.
(C) An initial research step used primarily to identify the correct target group for the new product.
(D) A pre-development marketing activity designed to create market awareness for the upcoming product.

Ans :

(A) It is an intermediate step to test the product on a small scale and gather feedback for refinement. The source places pilot testing after the initial product development but before the final rollout. Its purpose is to test the product with a "sample universe" to "get feedback." This feedback is then used for "fine tuning the product," indicating its role as a crucial testing and refinement stage before a full-scale launch.

Oct/Nov 2022

99. Consider the following statements about retail banking implementation models:
i. Most PSBs use only in-house resources for retail banking.
ii. Old private sector banks carry out activities through a mix of in-house and outsourced resources.
iii. In some foreign banks, both front-end and back-end operations are outsourced.
iv. New generation private sector banks' model is a balanced mix of outsourcing and in-house, skewed towards outsourcing.

Which combination of statements is correct?
(A) i, ii, iii
(B) i, iii, iv
(C) ii, iii, iv
(D) i, ii, iv

Ans :

(B) i, iii, iv
Statement (i) is correct. Statement (ii) is incorrect; old private sector banks are mentioned as carrying out activities "through in-house resources only." Statement (iii) is correct, as this is one of the models used by foreign banks. Statement (iv) is also a correct description of the model used by new generation private sector banks.

May/June 2014

100. Which of the following statements incorrectly describes the distinction between retail and corporate banking?
(A) The ticket size of loans is low in retail banking and high in corporate banking.
(B) Monitoring and recovery are more laborious in retail banking due to the larger customer base.
(C) The impact of NPA is more pronounced in corporate banking as ticket sizes are higher.
(D) Returns are generally lower in retail banking due to higher competition for individual customers.

Ans :

(D) Returns are generally lower in retail banking due to higher competition for individual customers.
This statement is incorrect. The text explicitly states that "Returns are more in retail banking as the spreads are more for different asset classes in retail." Returns are lower in corporate banking because large corporate clients can bargain for lower rates, not the other way around. The other statements are all correct distinctions.

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CHAPTER 4
Branch Profitability

Oct/Nov 2014

1. According to the regulatory framework for the supervision of banks in India, which Act governs the banking system?
(A) Reserve Bank of India Act, 1934
(B) Banking Regulation Act, 1949
(C) Companies Act, 2013
(D) Securities and Exchange Board of India Act, 1992

Ans :

(B) Banking Regulation Act, 1949
The Banking System in India is governed under the Banking Regulation Act, 1949, by the Reserve Bank of India. This act provides the comprehensive regulatory framework for the supervision of all banking firms in the country. It was initially passed as the Banking Companies Act 1949 and later renamed in 1966.

May/June 2005

2. The Banking Regulation Act, 1949, was originally passed as the Banking Companies Act 1949. From which date was it renamed to the Banking Regulation Act, 1949?
(A) 1 March 1966
(B) 16 March 1949
(C) 15 August 1947
(D) 26 January 1950

Ans :

(A) 1 March 1966
The Banking Regulation Act, 1949, was initially passed as the Banking Companies Act 1949 and it came into force on 16 March 1949. The name of the act was subsequently changed to the Banking Regulation Act, 1949, with effect from 1 March 1966, to broaden its regulatory scope and powers over banking institutions.

Oct/Nov 2023

3. The development of the banking sector in India is categorized into three phases. Which of the following correctly identifies the period of the 'Nationalisation Phase'?
(A) 1770 to 1969
(B) 1991 to present
(C) 1969 to 1991
(D) 1770 to 1947

Ans :

(C) 1969 to 1991
The development of the Indian banking sector is divided into three distinct phases. Phase II, known as the Nationalisation Phase, spans the period from 1969 to 1991. This era was marked by the government's decision to nationalize major commercial banks to achieve broader economic and social objectives, starting with 14 banks in 1969.

May/June 2019

4. The Imperial Bank of India, formed in 1921 by merging three Presidential banks, was nationalised and renamed in 1955. What is its current name?
(A) Bank of India
(B) Reserve Bank of India
(C) Central Bank of India
(D) State Bank of India

Ans :

(D) State Bank of India
During British rule, the three Presidential banks of Kolkata, Mumbai, and Chennai were merged in 1921 to form the Imperial Bank of India. This bank was subsequently nationalised in 1955 and renamed The State Bank of India (SBI). Today, SBI stands as the largest Public Sector Bank in the country, playing a pivotal role.

Oct/Nov 2010

5. In which year did the Government of India first nationalise 14 major banks under the Banking Regulation Act, 1949?
(A) 1955
(B) 1959
(C) 1969
(D) 1980

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Ans :

(C) 1969
In a significant policy move, the Government of India decided to nationalise the country's major banks in 1969. During this first wave of nationalisation, 14 banks were brought under government ownership. This was followed by the nationalisation of another 6 banks in 1980, increasing the total number of nationalised banks at that time to 20.

May/June 2021

6. To manage major reforms in the banking sector during the liberalisation phase starting in the 1990s, which committee was set up by the Government?
(A) Rangarajan Committee
(B) Narasimham Committee
(C) Kelkar Committee
(D) Bimal Jalan Committee

Ans :

(B) Narasimham Committee
During the final phase of banking development, which began in the nineties, the Government of India established the Narasimham Committee. This committee was tasked with managing and recommending major reforms for the banking sector, leading to significant changes like the entry of private sector banks and deregulation to enhance competition and efficiency in the industry.

Oct/Nov 2006

7. Commercial banks act as a bridge between depositors and borrowers, exposing them to various risks. Which of the following is NOT one of the broad risk categories mentioned?
(A) Credit risk
(B) Liquidity risk
(C) Operational risk
(D) Reputational risk

Ans :

(D) Reputational risk
While reputational risk is a concern for any business, the text specifically categorizes the primary risks faced by commercial banks as Credit risk, Liquidity risk, Market risk, and Operational risk. These risks arise from their core functions of accepting deposits and deploying funds, and require a strong regulatory and supervisory framework for mitigation.

May/June 2012

8. The subprime crisis, which led to a serious breakdown of the economy, is cited as an example of the consequences of a bank crisis. In which period did this crisis occur?
(A) 2007-2008
(B) 1997-1998
(C) 2001-2002
(D) 2011-2012

Ans :

(A) 2007-2008
The text highlights the importance of effective regulatory control for banks to withstand economic shocks. It references the subprime crisis of 2007-2008 as a major event where a banking crisis led to a severe breakdown of the global economy, underscoring the systemic importance of a stable and profitable banking sector for overall economic health.

Oct/Nov 2025

9. As per the recommendations of the Narasimhan Committee, the Indian banking sector introduced several reforms in the 1990s. Which of the following was NOT among these reforms?
(A) Opening the sector to private and foreign players
(B) Deregulation of interest rates
(C) Nationalisation of remaining private banks
(D) Reduction of the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)

Ans :

(C) Nationalisation of remaining private banks
The reforms recommended by the Narasimhan Committee were aimed at liberalisation and increasing competition. They included opening the sector to private and foreign banks, deregulating interest rates, and reducing CRR and SLR. Further nationalisation was contrary to the spirit of these reforms, which sought to reduce government control and promote market-driven efficiency.

May/June 2007

10. Based on the text: "As of today, Indian Banking System consists of 12 Public Sector Banks, 21 Private Sector Banks, 45 Foreign Banks, 53 Scheduled Urban Cooperative banks, 1470

non-scheduled Urban Cooperative Banks, 43 Regional Rural Banks and around 96,000 Rural Cooperative banks...” Which category of banks has the highest number of institutions in the Indian Banking System?
(A) Rural Cooperative banks
(B) Public Sector Banks
(C) Private Sector Banks
(D) Non-scheduled Urban Cooperative Banks

Ans :

(A) Rural Cooperative banks
The provided data on the composition of the Indian Banking System clearly indicates the number of institutions in each category. With around 96,000 institutions, Rural Cooperative banks represent the largest group by sheer number. This highlights the extensive reach of the cooperative banking structure, particularly in the rural areas of the country.

Oct/Nov 2018

11. According to the text, which segment of the Indian banking system holds more than 70 per cent of the banking business, despite steadily losing market share to private peers?
(A) Private Sector Banks
(B) Foreign Banks
(C) Regional Rural Banks
(D) Public Sector Banks

Ans :

(D) Public Sector Banks
The text states that Public Sector Banks (PSBs) continue to dominate the Indian banking landscape, holding more than 70 per cent of the total banking business. However, it also notes a significant trend where these government-owned banks are steadily losing their market share to the more agile and competitive private sector banks.

May/June 2023

12. As of 31st March 2021, what was the reported Gross NPA of the banks in India?
(A) ₹1.97 trillion
(B) ₹8.34 trillion
(C) ₹12.45 trillion
(D) ₹5.67 trillion

Ans :

(B) ₹8.34 trillion
The quality of assets is highlighted as a matter of concern for the Indian banking sector. The text explicitly states that the Gross Non-Performing Assets (NPA) of the banks had reached a significant level of ₹8.34 trillion as of 31st March 2021, which is detrimental to the financial health and profitability of the banks.

Oct/Nov 2009

13. Which of the following defines ‘Profitability’ in the context of a business?
(A) The absolute amount of money a business earns after all expenses.
(B) The total sales generated by a business in a fiscal year.
(C) A measure of a business’s profit relative to its expenses and revenue.
(D) The total assets owned by a business.

Ans :

(C) A measure of a business’s profit relative to its expenses and revenue.
Profitability is a relative measure, not an absolute one. It is defined as a measure of an organization’s profit in relation to its expenses, revenue, and costs. It essentially measures the efficiency of a business in generating profit from its resources and is considered a key indicator of its success or failure.

May/June 2016

14. What is the primary difference between top-line profitability and bottom-line profitability?
(A) Top-line refers to net profit, while bottom-line refers to gross sales.
(B) Top-line considers operating expenses, while bottom-line does not.
(C) Top-line is a relative measure, while bottom-line is an absolute number.
(D) Top-line is concerned with Gross Sales, while bottom-line is concerned with profit after all expenses.

Ans :

(D) Top-line is concerned with Gross Sales, while bottom-line is concerned with profit after all expenses.
Analysts focus on different aspects of performance. Some are interested in top-line profitability, which relates to Gross Sales, indicating the total revenue generated. Others are concerned with bottom-line profitability, which is the net profit remaining after all expenses, including taxes and interest, have been deducted, reflecting the ultimate earnings of the business.

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Oct/Nov 2022

15. The first level of profitability, which is calculated as Total Sales minus the Cost of Goods Sold (COGS), is known as:
(A) Gross Profit
(B) Net Profit
(C) Operating Profit
(D) Pre-tax Profit

Ans :

(A) Gross Profit
Gross profit is the first and most basic level of profit calculated on an income statement. It is derived by subtracting the Cost of Goods Sold (COGS), which are the direct costs of producing goods, from the total sales revenue. This figure indicates how efficiently a company uses its labor and supplies in production.

May/June 2018

16. Company A has total sales of ₹1,00,00,000 and a Cost of Goods Sold (COGS) of ₹60,00,000. What is the Gross Profit Margin for Company A?
(A) 20%
(B) 40%
(C) 60%
(D) 100%

Ans :

(B) 40%
First, calculate the Gross Profit, which is Sales minus COGS:
₹1,00,00,000 - ₹60,00,000 = ₹40,00,000.
The Gross Profit Margin is then calculated by dividing the Gross Profit by Total Sales and multiplying by 100.
Thus, (₹40,00,000 / ₹1,00,00,000) × 100 = 40%.
This margin represents the proportion of money left over from revenues after accounting for the cost of goods sold.

Oct/Nov 2016

17. How is Operating Profit calculated?
(A) Gross Profit - (Taxes + Interest)
(B) Gross Profit - Operating Expenses
(C) Total Sales - Operating Expenses
(D) Total Sales - Cost of Goods Sold

Ans :

(B) Gross Profit - Operating Expenses
Operating profit is the second level of profitability and is calculated by deducting operating expenses from the gross profit. Operating expenses include costs such as selling, general, and administrative (SG&A) expenses. This metric provides insight into a company's profitability from its core business operations before considering interest and taxes.

May/June 2014

18. Following the previous case, Company A has a Gross Profit of ₹40,00,000 and operating expenses (SG&A) of ₹20,00,000. Its total sales are ₹1,00,00,000. What is the Operating Profit Margin for Company A?
(A) 20%
(B) 10%
(C) 40%
(D) 50%

Ans :

(A) 20%
The Operating Profit is calculated as Gross Profit minus Operating Expenses, which is ₹40,00,000 - ₹20,00,000 = ₹20,00,000. The Operating Profit Margin is then found by dividing the Operating Profit by Total Sales and multiplying by 100. Therefore, (₹20,00,000 / ₹1,00,00,000) 100 = 20%.

Oct/Nov 2007

19. The formula for Operating Profit Margin is given by:
(A) $\frac{\text{Gross Profit}}{\text{Total Sales}}$
(B) $\frac{\text{Net Profit}}{\text{Total Sales}}$
(C) $\frac{\text{Operating Profit}}{\text{Total Sales}}$
(D) $\frac{\text{Operating Profit}}{\text{Gross Profit}}$

Ans :

(C) $\frac{\text{Operating Profit}}{\text{Total Sales}}$
The Operating Profit Margin is a profitability ratio that measures what percentage of a company's revenue is left after paying for its variable costs of production, such as wages and raw materials, but before paying interest or tax. It is correctly calculated by dividing the Operating Profit by the Total Sales for the period.

May/June 2025

20. Net Profit is the income left over after all expenses have been paid. Which of the following are deducted from Operating Profit to arrive at Net Profit?

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(A) Cost of Goods Sold only
(B) Operating Expenses only
(C) Depreciation and Amortization
(D) Taxes and Interest

Ans :

(D) Taxes and Interest
Net Profit represents the "bottom line" or the final earnings of a company. It is calculated by taking the Operating Profit and subtracting all non-operating expenses, which primarily include interest expenses and corporate income taxes. This figure shows the actual profit available to the shareholders of the company after all obligations have been met.

Oct/Nov 2019

21. Company A has an Operating Profit of ₹20,00,000. It pays ₹5,00,000 in interest and ₹5,00,000 in taxes. The total sales are ₹1,00,00,000. What is the Net Profit Margin?
(A) 5%
(B) 15%
(C) 10%
(D) 20%

Ans :

(C) 10%
First, calculate the Net Profit by deducting taxes and interest from the Operating Profit: ₹20,00,000 - (₹5,00,000 + ₹5,00,000) = ₹10,00,000. The Net Profit Margin is then calculated by dividing Net Profit by Total Sales and multiplying by 100. Thus, (₹10,00,000 / ₹1,00,00,000) 100 = 10%.

May/June 2009

22. Which of the following statements correctly distinguishes between profit and profitability?
(A) Profit is a relative measure, while profitability is an absolute number.
(B) Profit is an absolute amount, while profitability is a relative measure of efficiency.
(C) Profit appears on the balance sheet, while profitability appears on the income statement.
(D) Profit and profitability are interchangeable terms with the same meaning.

Ans :

(B) Profit is an absolute amount, while profitability is a relative measure of efficiency.
The key difference is that profit is an absolute monetary value, calculated as total revenue minus total expenses. In contrast, profitability is a relative metric, often expressed as a percentage or ratio. It measures the efficiency and scope of a company's profit in relation to the size of the business, its revenue, or its assets.

Oct/Nov 2011

23. In the context of banking, what constitutes the major assets and major liabilities of a bank?
(A) Assets: Deposits; Liabilities: Loans and advances
(B) Assets: Buildings and infrastructure; Liabilities: Equity capital
(C) Assets: Cash reserves; Liabilities: Service fees
(D) Assets: Loans and securities; Liabilities: Deposits and borrowings

Ans :

(D) Assets: Loans and securities; Liabilities: Deposits and borrowings
The core business of a bank involves intermediation. Its major assets are the interest-earning instruments it holds, primarily loans and advances to customers and investments in securities. Its major liabilities are the funds it has sourced, which are mainly deposits from customers and borrowings from other banks or the money market.

May/June 2010

24. What is the term for the extent to which a bank funds its assets with borrowings rather than equity, used as a strategy to increase profits?
(A) Gearing or Leverage
(B) Capital Adequacy
(C) Liquidity Management
(D) Asset-Liability Mismatch

Ans :

(A) Gearing or Leverage
Banks use leverage, also known as gearing, to increase their profits. This involves funding a larger portion of their asset base with borrowed funds (liabilities like deposits) rather than with their own equity capital. While this amplifies returns on equity, it also significantly increases the risk profile of the bank, as losses are also magnified.

Oct/Nov 2024

25. What are the two traditional measures of profitability for a business, including banks?
(A) Gross Profit and Net Profit

(B) Interest Rate Spread and Net Interest Margin
(C) Return on Assets (ROA) and Return on Equity (ROE)
(D) Earnings Per Share (EPS) and Price-to-Earnings (P/E) Ratio

Ans :

(C) Return on Assets (ROA) and Return on Equity (ROE)
The text identifies Return on Assets (ROA) and Return on Equity (ROE) as the primary traditional measures of a business's profitability. ROA measures how efficiently a company is using its assets to generate earnings, while ROE measures the rate of return on the ownership interest (shareholders' equity) of the company.

May/June 2017

26. The classic accounting equation for a bank is represented as:
(A) Assets = Liabilities + Bank Capital (Owners' Equity)
(B) Assets = Liabilities - Bank Capital
(C) Assets = Bank Capital - Liabilities
(D) Liabilities = Assets + Bank Capital

Ans :

(A) Assets = Liabilities + Bank Capital (Owners' Equity)
The fundamental accounting equation, which forms the basis of the balance sheet, is Assets = Liabilities + Equity. For a bank, this is expressed as Assets = Liabilities + Bank Capital (Owners' Equity). This equation shows that a bank's assets are funded by either liabilities (what it owes) or by the capital invested by its owners.

Oct/Nov 2005

27. Why can't all of a bank's assets be used to earn income?
(A) Because a portion must be invested in non-banking subsidiaries.
(B) Because of statutory restrictions on lending to certain sectors.
(C) Because a significant part of assets are fixed assets like buildings.
(D) Because banks must hold cash, maintain CRR/SLR, and keep loan loss reserves.

Ans :

(D) Because banks must hold cash, maintain CRR/SLR, and keep loan loss reserves.
Banks cannot deploy all their assets for income generation due to several constraints. They must hold physical cash for withdrawals, maintain mandatory reserves with the regulator like CRR (which earns no interest) and SLR (which earns low interest), and set aside funds in loan loss reserves to cover potential defaults. These funds are not available for lending.

May/June 2020

28. What is the 'Interest Rate Spread' for a bank?
(A) The difference between the highest and lowest lending rates offered by the bank.
(B) The average interest rate earned on assets minus the average interest rate paid on liabilities.
(C) The total interest income minus the total interest expense.
(D) The interest earned on loans minus the interest earned on securities.

Ans :

(B) The average interest rate earned on assets minus the average interest rate paid on liabilities.
The Interest Rate Spread is a key determinant of a bank's net interest income. It is calculated as the difference between the average rate of interest a bank receives from its interest-earning assets (like loans) and the average rate of interest it pays on its interest-bearing liabilities (like deposits). A wider spread generally indicates higher profitability.

Oct/Nov 2015

29. How is a bank's Net Interest Income (NII) calculated?
(A) Interest Received on Assets + Interest Paid on Liabilities
(B) Average Interest Rate on Assets - Average Interest Rate on Liabilities
(C) Interest Received on Assets - Interest Paid on Liabilities
(D) (Interest on Loans + Interest on Securities) - Interest on Deposits only

Ans :

(C) Interest Received on Assets - Interest Paid on Liabilities
Net Interest Income (NII) is a core component of a bank's revenue. It represents the difference between the revenue generated from a bank's interest-bearing assets and the expenses associated with paying on its interest-bearing liabilities. It is

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calculated as the total interest received on assets (loans, securities) minus the total interest paid on liabilities (deposits, borrowings).

May/June 2013

30. What does a high Net Interest Margin (NIM) indicate about a bank?

(A) The bank is burdened by a high level of non-performing assets on its balance sheet.

(B) The bank has high operating costs, which negatively impacts its overall efficiency ratio.

(C) The bank is overly reliant on fee-based income, suggesting weakness in its core business.

(D) The bank is investing its funds profitably, indicating efficient management.

Ans :

(D) The bank is investing its funds profitably, indicating efficient management.

Net Interest Margin (NIM) shows how well a bank is earning income on its assets. It is a key indicator of a bank's operational efficiency and profitability. A high NIM suggests that the bank is effectively managing its assets and liabilities to generate a strong return, which is a positive sign for its future profitability.

Oct/Nov 2021

31. The formula for Return on Asset (ROA) for banks is expressed as:

(A) $\frac{\text{Net Income}}{\text{Average Total Assets}}$

(B) $\frac{\text{Net Interest Income}}{\text{Average Total Assets}}$

(C) $\frac{\text{Net Income}}{\text{Bank Capital}}$

(D) $\frac{\text{Fee Income}}{\text{Operating Costs}}$

Ans :

(A) $\frac{\text{Net Income}}{\text{Average Total Assets}}$

Return on Asset (ROA) is a key profitability ratio that measures how efficiently a bank is using its assets to generate profit. The formula is Net Income divided by Average Total Assets. The numerator, Net Income, is derived from Fee Income plus Net Interest Income minus Operating Costs. Average assets are used to smooth out fluctuations.

May/June 2024

32. Why are 'Average Total Assets' used in the calculation of ROA and NIM instead of assets at a single point in time?

(A) Because assets are difficult to calculate at a specific point in time.

(B) Because income is calculated over a period, while assets are a balance sheet factor at a point in time.

(C) To artificially inflate the profitability ratios.

(D) To exclude non-income generating assets from the calculation.

Ans :

(B) Because income is calculated over a period, while assets are a balance sheet factor at a point in time.

Income (like Net Income or Net Interest Income) is a flow concept, measured over a period (e.g., a quarter or a year). Assets, however, are a stock concept, measured at a specific point in time from the balance sheet. Using average assets provides a more representative denominator that corresponds better with the period over which income was generated.

Oct/Nov 2008

33. How are Average Total Assets typically calculated for financial ratios?

(A) (Total Assets at Start of Fiscal Year - Total Assets at End of Fiscal Year) / 2

(B) (Total Assets at Start of Fiscal Year + Total Assets at End of Fiscal Year) / 2

(C) Total Assets at End of Fiscal Year

(D) The highest asset value during the fiscal year.

Ans :

(B) (Total Assets at Start of Fiscal Year + Total Assets at End of Fiscal Year) / 2

To calculate Average Total Assets, the standard method is to take the value of total assets from the balance sheet at the beginning of the accounting period and add it to the value of total assets at the end of the period. This sum is then divided by two to find the simple average for the period.

May/June 2006

34. Why are bank owners primarily interested in Return on Equity (ROE) rather than just Return on Assets (ROA)?

(A) Because ROE measures the return generated on their specific capital investment.

(B) Because ROE is a simpler metric to calculate

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than the more complex ROA.
(C) Because ROE is a universally higher figure, making it a more impressive metric.
(D) Because regulators focus their compliance checks almost exclusively on the ROE figure.

Ans :

(A) Because ROE measures the return generated on their specific capital investment.
While ROA measures the profitability of the entire asset base, ROE is the key metric for owners (shareholders) because it measures the profitability generated on their specific capital investment. It answers the question, "How much profit is the bank making for every dollar of equity I have invested?" This makes it the ultimate measure of performance for owners.

Oct/Nov 2017

35. When a bank increases its liabilities to purchase more assets, it is said to be using:
(A) Diversification
(B) Hedging
(C) Leverage
(D) Securitization

Ans :

(C) Leverage
Leverage in a banking context refers to the use of borrowed funds (liabilities, such as deposits) to finance the purchase of assets. By using leverage, a bank can control a larger asset base than its own capital would otherwise allow. This strategy is used to amplify the return on the owners' equity, but it also magnifies the associated risks.

May/June 2008

36. Which of the following correctly represents the formula for a bank's Leverage Ratio?
(A) $\frac{\text{Bank Capital}}{\text{Bank Assets}}$
(B) $\frac{\text{Bank Liabilities}}{\text{Bank Assets}}$
(C) $\frac{\text{Bank Assets}}{\text{Bank Liabilities}}$
(D) $\frac{\text{Bank Assets}}{\text{Bank Capital}}$

Ans :

(D) $\frac{\text{Bank Assets}}{\text{Bank Capital}}$
The Leverage Ratio for a bank is calculated by dividing its total assets by its capital. This ratio indicates how many times the bank's capital is magnified in its asset base. A higher ratio signifies greater leverage, meaning the bank is funding a larger portion of its assets with debt, which increases both potential returns and potential risks.

Oct/Nov 2013

37. The relationship between ROE, ROA, and Leverage Ratio is correctly expressed as:
(A) ROE = ROA / Leverage Ratio
(B) ROE = ROA + Leverage Ratio
(C) ROE = ROA × Leverage Ratio
(D) ROE = Leverage Ratio - ROA

Ans :

(C) ROE = ROA × Leverage Ratio
The DuPont model, as adapted for banks, shows that Return on Equity (ROE) is a product of asset profitability (ROA) and financial leverage. The formula is ROE = ROA × Leverage Ratio. This decomposition demonstrates how a bank can enhance its return to shareholders by either improving its asset efficiency or by increasing its leverage.

May/June 2015

38. A hypothetical bank has Bank Assets of ₹100, Bank Liabilities of ₹95, and Bank Capital of ₹5. What is the leverage ratio of this bank?
(A) 10 to 1
(B) 20 to 1
(C) 15 to 1
(D) 19 to 1

Ans :

(B) 20 to 1
The leverage ratio is calculated as Bank Assets divided by Bank Capital. In this case, the Bank Assets are ₹100 and the Bank Capital is ₹5. Therefore, the leverage ratio is ₹100 / ₹5, which equals 20. This is expressed as a ratio of 20 to 1, indicating high leverage.

Oct/Nov 2012

39. Consider a bank with assets of ₹100 and capital of ₹5, giving it a 20:1 leverage ratio. What percentage drop in the value of its assets would be sufficient to wipe out the bank's entire capital?
(A) 2%
(B) 10%
(C) 20%
(D) 5%

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Ans :

(D) 5%
The bank's capital is ₹5, which is 5% of its total assets (₹5 / ₹100). A drop in asset value is absorbed by the capital. Therefore, a 5% drop in the value of its assets would amount to a loss of ₹5 (5% of ₹100), which is exactly equal to the bank's capital, thus wiping it out entirely.

May/June 2011

40. The case of Lehman Brothers' bankruptcy in 2008 is used as an example of the dangers of excessive leverage. What was their approximate leverage ratio mentioned in the text?
(A) Greater than 30 to 1
(B) 10 to 1
(C) 15 to 1
(D) 20 to 1

Ans :

(A) Greater than 30 to 1
The text cites Lehman Brothers as an example of an institution using extremely high leverage. Their leverage ratio was greater than 30. This meant that a mere 3% decline in the value of their assets was enough to eliminate their entire capital base, which ultimately led to their collapse during the subprime mortgage crisis.

Oct/Nov 2020

41. What is the primary reason that a focus on cutting costs alone is not a sufficient formula for long-term success and profitability for a bank?
(A) It often leads to a direct and immediate reduction in the quality of customer-facing services.
(B) Significant cost-cutting measures are often scrutinized by regulators concerned about systemic risk.
(C) It ignores crucial investments needed to upgrade capabilities and prepare for future market changes.
(D) The high fixed costs inherent in banking make it nearly impossible to achieve meaningful cost reductions.

Ans :

(C) It ignores crucial investments needed to upgrade capabilities and prepare for future market changes.
The text argues for a balanced approach to improving operating efficiency. A singular focus on cost-cutting is inadequate for long-term success because it can neglect crucial investments in technology, marketing, and new capabilities. These investments are imperative for a bank to remain competitive, respond to changing market dynamics, and ensure future profitability.

May/June 2022

42. Which of the following is NOT a factor mentioned as transforming the nature of banking and giving impetus to the need for efficiency?
(A) Stable interest rate margins
(B) Changes in customer preferences and expectations
(C) New competition and new technologies
(D) Potential of an economic downturn

Ans :

(A) Stable interest rate margins
The text explicitly states that the banking industry is experiencing "narrowing margins," not stable ones. This pressure on profitability, combined with changing customer preferences, new competition from fintech, the need for technological investment, slow deposit growth, and potential economic downturns, all contribute to the urgent need for banks to improve their operating efficiency.

Oct/Nov 2014

43. According to the text, why are across-the-board budget cuts considered a 'recipe for disaster' for banks?
(A) They are logistically too difficult to implement fairly and consistently across all bank departments.
(B) They are often considered illegal under regulations that mandate minimum operational standards.
(C) They almost always lead to immediate and widespread employee strikes and organized union action.
(D) They cut too much from productive areas and too little from inefficient ones.

Ans :

(D) They cut too much from productive areas and too little from inefficient ones.
The most successful efficiency initiatives use an analytical approach tailored to specific circumstances. Across-the-board cuts are criticized because they are indiscriminate. Such cuts often penalize already efficient departments

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while failing to adequately address the deep-rooted problems in the most inefficient areas, making it an ineffective and often counterproductive strategy for sustainable improvement.

May/June 2005

44. Exiting business lines with low margins and moving into more cost-effective, non-traditional businesses like specialty financing is an example of which strategy for improving efficiency?
(A) Channel optimization
(B) Business realignment
(C) Process cost improvement
(D) Staff productivity enhancement

Ans :

(B) Business realignment
Business realignment is a strategic approach focused on a bank's portfolio of business lines. The basic premise is to exit activities that are inherently low-margin or not cost-effective and strategically pivot towards areas with higher profitability potential. This may involve entering non-traditional businesses where the bank can compete effectively and efficiently for long-term gains.

Oct/Nov 2023

45. Which strategy for improving banking efficiency involves assessing the various ways customers interact with a bank to create a cost-effective combination of physical and digital touchpoints?
(A) Business realignment
(B) Vendor management
(C) Channel optimization
(D) Process cost improvement

Ans :

(C) Channel optimization
Channel optimization focuses on managing the mix of channels through which customers interact with the bank, including branches, ATMs, contact centers, and online/mobile platforms. The goal is to create a cost-effective combination that is adapted to the bank's specific customer base and their changing preferences, such as the shift towards digital interactions.

May/June 2019

46. Improving a bank's efficiency by reducing the unit cost-to-value ratio of activities like opening an account or creating a loan document package falls under which area of improvement?
(A) Staff productivity
(B) Channel optimization
(C) Technology and automation
(D) Process costs

Ans :

(D) Process costs
This strategy involves taking a "manufacturing view" of banking processes. The goal is to improve the bank's efficiency ratio by reducing the cost associated with each individual transaction or activity. This is achieved through continual performance monitoring, process mapping, benchmarking, and rethinking back-office operations to make them more streamlined and cost-effective.

Oct/Nov 2010

47. Which of the following is NOT a tool or technique mentioned for improving staff productivity?
(A) Increasing the number of hierarchical levels in the organization
(B) Using clearly defined expectations and scorecards
(C) Providing "line-of-sight" incentives like performance-related bonuses
(D) Redefining job roles and using flexible work arrangements

Ans :

(A) Increasing the number of hierarchical levels in the organization
Improving staff productivity involves techniques like clear goal-setting, performance metrics, targeted incentives, better training, and flexible work structures. Adding more hierarchical layers would likely slow down decision-making and reduce efficiency, which is contrary to the goal of enhancing productivity. The text suggests flatter, more agile structures and redefined roles.

May/June 2021

48. The threefold overarching goal of using technology and automation in banking is to enable self-service, reduce employee time on information search, and:
(A) To replace all forms of human interaction with customers and clients.
(B) To use automated rules and decision models to accelerate work.
(C) To increase the number of physical documents for long-term record-keeping.

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(D) To centralize all decision-making at the highest level of top management.

Ans :

(B) To use automated rules and decision models to accelerate work.
The text outlines a threefold goal for technology and automation. The first two are enabling customer self-service and reducing employees' information retrieval time. The third goal is to implement automated business rules and decision models, which helps to streamline workflows, process transactions more quickly and efficiently, and reduce manual intervention.

Oct/Nov 2006

49. What is an increasingly important practice in banking technology to allow for parallel processing and minimize delays?
(A) Storing all important documents in centralized, secure physical vaults for safekeeping.
(B) Converting hard-copy documents into electronic images early in a process.
(C) Requiring physical "wet" signatures on all final documents at the last step of a transaction.
(D) Processing each step of a complex transaction sequentially to avoid any potential process errors.

Ans :

(B) Converting hard-copy documents into electronic images early in a process.
The text highlights the benefits of digitizing documents. Converting hard-copy documents to electronic images at the start of a process, rather than at the end for storage, is crucial. This allows for minimal delay, virtually no added cost for movement, and enables parallel processing, where multiple steps in a transaction can be worked on simultaneously.

May/June 2012

50. What is the primary objective of 'Improved Vendor Management' as a strategy for efficiency?
(A) To derive the greatest possible value from a vendor relationship, aligning it with business objectives.
(B) To constantly pressure all vendors for across-the-board price reductions to meet short-term cost targets.
(C) To consolidate all services with a single, large-scale vendor to gain negotiating leverage and simplify management.
(D) To systematically outsource all non-core banking activities to the cheapest available third-party provider in the market.

Ans :

(A) To derive the greatest possible value from a vendor relationship, aligning it with business objectives.
Improved Vendor Management is not simply about seeking the lowest price. It is a focused effort to maximize the value derived from vendor relationships. This involves selecting vendors that align with the bank's strategic objectives and using tools like service-level agreements (SLAs) and scorecards to monitor performance and ensure the relationship delivers optimal value.

Oct/Nov 2025

51. The strategy of offering products and pricing based on a 'total customer view' and responding to the value a customer brings to the bank is known as:
(A) Product Standardization
(B) Cost-plus Pricing
(C) Product Bundling and Relationship Pricing
(D) Transactional Pricing

Ans :

(C) Product Bundling and Relationship Pricing
This strategy moves beyond a 'one-size-fits-all' approach. It involves looking at the entire relationship a customer has with the bank and offering bundled products and preferential pricing based on their total value. This enhances customer loyalty and profitability by catering to individual needs and rewarding high-value customers, making them less likely to switch institutions.

May/June 2007

52. What is the primary benefit for a bank to create a '360-degree Customer View' by integrating cross-lob data?
(A) To enforce stricter regulatory compliance rules for data privacy and storage.
(B) To reduce the number of separate databases the bank must maintain and secure.
(C) To automate the process of identifying and systematically closing unprofitable customer accounts.

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(D) To enable precise product targeting and maximize customer lifetime value.

Ans :

(D) To enable precise product targeting and maximize customer lifetime value.
Despite challenges, creating a 360-degree customer view is crucial. It provides a holistic picture of a customer's demographics, needs, and preferences. This deep knowledge enables the bank to precisely target products and services, focus on acquiring more profitable customers, reduce marketing waste, improve satisfaction, and ultimately maximize the customer's lifetime value to the bank.

Oct/Nov 2018

53. Based on the text: "Sophisticated customer segmentation ... should be based on standard banking metrics – tenure with the bank, number of accounts, balances of accounts and loans, frequency of interaction with the bank, channel preferences along with psychographic (values, attitudes, lifestyles), behavioural (usage rate, price sensitivity, brand loyalty, and benefits sought) and demographic variables (occupation, income, and family-status)." Which of the following is an example of a 'psychographic' variable for customer segmentation?
(A) Number of accounts
(B) Income level
(C) Lifestyles and attitudes
(D) Price sensitivity

Ans :

(C) Lifestyles and attitudes
The source text clearly categorizes different variables for customer segmentation. It lists tenure, number of accounts, and balances as standard banking metrics. It identifies price sensitivity and brand loyalty as behavioural variables and occupation and income as demographic variables. Lifestyles, values, and attitudes are explicitly mentioned as examples of psychographic variables.

May/June 2023

54. Acting on "moments-of-truth" such as a wedding or a new job to offer relevant products is an example of which strategy?
(A) Innovative Reward Design
(B) Real-time cross-selling/up-selling
(C) Automating Customer Care
(D) Sophisticated customer segmentation

Ans :

(B) Real-time cross-selling/up-selling
This strategy involves using real-time events and deep customer insight to make relevant offers. "Moments-of-truth" are significant life events that often trigger new financial needs. By identifying these moments and proactively offering a customized product or service, banks can deepen customer relationships, increase sales, and create higher barriers to switching banks.

Oct/Nov 2009

55. Co-branding debit/credit cards with companies like HPCL, Maruti Car, or Taj Hotels is an application of which profitability improvement strategy?
(A) Digital Revolution
(B) Vendor Management
(C) Business Realignment
(D) Innovative Reward Design

Ans :

(D) Innovative Reward Design
The text cites these co-branding examples under the heading of Innovative Reward Design. This strategy moves beyond a generic rewards model. By partnering with service providers, banks can offer additional, targeted reward points and premium benefits to profitable customers, making their card products more attractive and encouraging specific spending behaviours that benefit both the bank and its partner.

May/June 2016

56. What is the primary purpose of automating customer care through self-service options, case management, and dispute management?
(A) To improve the perception of customer care while also lowering operational costs.
(B) To completely eliminate the need for human branch staff and contact center agents.
(C) To gather more personal and behavioral data from customers for targeted marketing efforts.
(D) To comply with new government mandates requiring the full digitalization of all services.

Ans :

(A) To improve the perception of customer care while also lowering operational costs.

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In the digital age, customers demand anytime, anywhere service. Expanding self-service options and automating processes like case and dispute management can be perceived by customers as an improvement in care and convenience. For the bank, this strategy has the dual benefit of lowering operational costs and increasing the overall effectiveness of its service delivery model.

Oct/Nov 2022

57. It is mentioned that the idea that the importance of branches will diminish as digital channel usage increases is a myth. Why is this so?
(A) Branches are set to become the only channel for conducting all types of transactions.
(B) Digital channels are proving to be too expensive for banks to maintain in the long run.
(C) Successful branches will tightly integrate with and actively support other channels.
(D) Older generations of customers will likely never adopt any form of digital banking channels.

Ans :

(C) Successful branches will tightly integrate with and actively support other channels.
The text refutes the myth of the branch's demise. Instead, it posits that the role of the branch is evolving. The most successful branches will be those that are not standalone but are tightly integrated with other channels. They will promote and support digital adoption and serve as a physical point to complete transactions initiated elsewhere.

May/June 2018

58. Based on the text: "Big data technologies provide a scalable, integrated, secure and cost effective platform to more quickly prevent, detect and mitigate internal and external frauds. Big Data Benefits include: Reduced costs of fraud, screening and monitoring fewer false positives, reduced cost of fraud investigations, reduced payment fraud losses, real time fraud detection and mitigation, optimized offers and cross-sell." Which of the following is NOT listed as a benefit of using Big Data in banking?
(A) Guaranteed elimination of all false positives in fraud screening
(B) Reduced cost of fraud investigations
(C) Real-time fraud detection and mitigation
(D) Optimized offers and cross-selling

Ans :

(A) Guaranteed elimination of all false positives in fraud screening
The source text lists several benefits of Big Data in combating fraud. It explicitly mentions "screening and monitoring fewer false positives," which implies a reduction, not a guaranteed complete elimination. The other options—reduced investigation costs, real-time detection, and optimized offers—are all directly stated as benefits in the provided paragraph.

Oct/Nov 2016

59. Research shows that online banking and call centers now account for what percentage of customer transactions?
(A) 25 percent
(B) 35 percent
(C) 55 percent
(D) 75 percent

Ans :

(D) 75 percent
While retail branches remain a core channel, the text highlights a significant shift in customer behavior. It explicitly states that research shows customers are relying more heavily on digital and phone channels. In fact, online banking and call centers together now account for 55 percent of transactions, underscoring the need for a seamless multi-channel experience.

May/June 2014

60. The trend of designing bank branches to be "hip, modern, and fun" with perks like coffee bars is part of which strategy?
(A) Instilling a culture that values efficiency
(B) Innovative Bank Branch Design
(C) Automating Customer Care
(D) Vendor Management

Ans :

(B) Innovative Bank Branch Design
This approach falls under the strategy of Innovative Bank Branch Design. As simple transactions like withdrawals and deposits move to digital channels, banks are reimagining the purpose of the physical branch. The goal is to create an engaging, modern environment with perks to lure customers in, transforming the

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branch from a transactional hub to an advisory and relationship-building gateway.

Oct/Nov 2007

61. What is the key requirement for achieving long-term efficiency, beyond specific strategies?
(A) Having the newest and most cutting-edge technology available on the market.
(B) Maintaining the highest number of physical branches within the banking industry.
(C) A corporate culture that actively supports and values efficiency.
(D) Launching frequent and aggressive marketing campaigns to attract new customers.

Ans :

(C) A corporate culture that actively supports and values efficiency.
The text emphasizes that specific strategies alone are insufficient. Achieving sustainable, long-term efficiency is impossible without a corporate culture that actively supports and values it. This requires a visible commitment from top management, the implementation of metrics and accountability, and an organizational mindset focused on balancing value, cost, and continuous improvement.

May/June 2025

62. Which of the following statements about the impact of macro-economic factors on bank profitability is correct?
(A) Bank profitability responds negatively to GDP growth but positively to high rates of inflation.
(B) Bank profitability is not significantly affected by real GDP fluctuations or other macro factors.
(C) Low interest rates and stiff market competition tend to positively affect bank profitability.
(D) Bank profitability responds positively to GDP growth but negatively to the inflation growth rate.

Ans :

(D) Bank profitability responds positively to GDP growth but negatively to the inflation growth rate.
The text states that bank profitability generally responds positively to GDP growth, as economic expansion drives demand for credit. Conversely, it responds negatively to the inflation growth rate. Furthermore, it notes that low interest rates and stiff competition put pressure on interest margins, which in turn negatively affects bank profitability.

Oct/Nov 2019

63. Among industry-specific factors, which factor is stated to have the most adverse impact on the profitability of banks?
(A) Non-performing assets (NPAs)
(B) High capital adequacy
(C) Low operational efficiency
(D) High level of deposits

Ans :

(A) Non-performing assets (NPAs)
The text explicitly identifies Non-Performing Assets (NPAs) as having the most adverse impact on bank profitability. NPAs are detrimental because they do not generate interest income, and they necessitate higher provisioning, which directly reduces a bank's profits. This dual impact makes NPA management a critical factor for maintaining financial health.

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May/June 2009

64. How does non-interest income contribute to a bank's profitability?
(A) By increasing the bank's Net Interest Margin (NIM).
(B) By providing a diversified revenue stream from fees, commissions, and service charges.
(C) By reducing the bank's operational costs.
(D) By increasing the strength of the bank's equity capital.

Ans :

(B) By providing a diversified revenue stream from fees, commissions, and service charges.
Non-interest income is a crucial factor in determining a bank's overall profitability. It diversifies revenue sources beyond traditional interest income from loans. This income stream consists of earnings from commission income, service charges, guarantee fees, profits from the sale of investments, and foreign exchange profits, providing a buffer against fluctuations in interest margins.

Oct/Nov 2011

65. What is 'Transfer Price Mechanism' in the context of branch level profitability?
(A) A method for transferring employees between branches.

(B) A bank's internal policy for allocating costs and revenues between its different units or branches.
(C) A system for setting prices for customer-facing products.
(D) A regulatory requirement for pricing transfers of funds to foreign banks.

Ans :

(B) A bank's internal policy for allocating costs and revenues between its different units or branches.
Branch level profitability is influenced by the bank's internal policies, which may be exercised through a 'Transfer Price Mechanism' (TPM). TPM is an internal accounting practice that assigns a price to funds transferred between a central treasury and individual branches, effectively determining the cost of funds and credit for deposits and loans at the branch level.

May/June 2010

66. The text states that customer visits to retail bank branches have dropped in recent years. By what percentage did these visits drop?
(A) More than 20 percent
(B) More than 10 percent
(C) More than 30 percent
(D) More than 40 percent

Ans :

(A) More than 20 percent
The text highlights the trend of consumers migrating to virtual channels for their banking needs. It explicitly states that this migration has resulted in customer visits to retail bank branches dropping by more than 20 percent. This decline in foot traffic is a primary driver for banks to rethink their branch strategies and focus on efficiency.

Oct/Nov 2024

67. The first step mentioned to improve branch profitability is to focus on balancing the three principal drivers of franchise value. What are these three drivers?
(A) Technology, Staff, and Marketing
(B) Deposits, Loans, and Investments
(C) Profit, Growth, and Risk
(D) Cost, Revenue, and Capital

Ans :

(C) Profit, Growth, and Risk
The best-performing banks build a sustainable earnings stream by carefully balancing the three principal drivers of franchise value: profit, growth, and risk. Focusing on these fundamentals allows a bank to align its branch-level priorities and day-to-day activities with the overall objective of improving performance and long-term profitability.

May/June 2017

68. Why is setting the same percentage growth target for all branches considered an ineffective approach?
(A) It is far too complex to accurately monitor and track performance across a diverse branch network.
(B) It fundamentally violates the core banking principle of fairness and equity among different branch managers.
(C) It focuses too heavily on top-line revenue growth while completely ignoring branch-level profitability.
(D) It creates unachievable goals for some branches and insufficiently challenging ones for others.

Ans :

(D) It creates unachievable goals for some branches and insufficiently challenging ones for others.
A one-size-fits-all approach to goal setting is ineffective because it ignores the unique market realities of each branch's service area. A more effective approach is to establish unique customer acquisition, retention, and cross-selling goals for each branch based on its specific potential and competitive landscape, leading to more realistic and challenging targets.

Oct/Nov 2005

69. A bank observes that a customer with a single product stays for about 18 months. According to the text, for approximately how long does a customer's relationship extend when they add one more product?
(A) Two years
(B) Three years
(C) Four years
(D) Five years

Ans :

(C) Four years

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The text provides specific data on the link between wallet share and customer retention. It states that while a single-product customer stays for about 18 months, adding one more product extends that relationship and the associated income stream to four years. This demonstrates the significant value of successful cross-selling in improving customer longevity and profitability.

May/June 2020

70. According to a survey mentioned in the text, what percentage of bankers indicated that their business development plans did not adequately recognize differences in wallet share among current customers?
(A) 27 percent
(B) 73 percent
(C) 53 percent
(D) 91 percent

Ans :

(B) 73 percent
The text highlights a significant gap in how banks approach customer development. It cites a survey where a substantial 73 percent of bankers admitted their business development plans failed to adequately recognize and act upon the differences in wallet share among their existing customers. This finding underscores the need for better analytical tools to identify profitable segments.

Oct/Nov 2015

71. To attract new customers, branch officials are advised to take a data-driven, proactive approach by focusing on two things. One is identifying which types of customers currently gravitate to the branch. What is the second?
(A) Which competitors are opening new branches nearby.
(B) Which new products have the highest profit margins.
(C) Which employees have the best sales records.
(D) Which specific segments the bank should target and pursue as prospects.

Ans :

(D) Which specific segments the bank should target and pursue as prospects.
To move beyond relying on existing relationships and location, a proactive approach to acquiring new customers is needed. This involves a two-pronged analysis: first, understanding the current customer profile of the branch, and second, strategically identifying specific market segments that the branch should actively target and pursue as new prospects for business growth.

May/June 2013

72. What is the primary purpose of analyzing the competition when developing a branch's business plan?
(A) To understand competitor strengths and weaknesses to gain a strategic business advantage.
(B) To precisely copy the competitor's most successful products and pricing strategies.
(C) To formally report the competitor's regulatory and compliance weaknesses to the authorities.
(D) To identify and strategically hire away the competitor's most successful and productive employees.

Ans :

(A) To understand competitor strengths and weaknesses to gain a strategic business advantage.
Analyzing the competition using analytical tools helps a branch identify which rivals are gaining market share and which are falling behind. This understanding of competitors' strengths and weaknesses is not for imitation but for leveraging that intelligence to develop more effective business plans, differentiate the branch's offerings, and create true business advantages in the marketplace.

Oct/Nov 2021

73. Why is it recommended that banks establish unique goals for each branch and adopt a more demanding sales culture?
(A) To create intense internal competition between branches for performance rankings.
(B) To reduce the overall need for broad marketing and advertising campaigns.
(C) To attract new customers and effectively sell more products to existing ones.
(D) To simplify the annual performance evaluation process for individual branch managers.

Ans :

(C) To attract new customers and effectively sell more products to existing ones.
The text suggests that to drive customer origination, retention, and expansion, banks must

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go beyond just setting unique goals. They also need to foster a more demanding sales culture. This combination is essential for proactively attracting new business and effectively cross-selling more products and services to the existing customer base, thereby improving branch performance.

May/June 2024

74. By using tools like consumer household segmentation and CRM systems, branches can improve their understanding of customers, predict in-branch behavioral patterns, and spot emerging trends. This is part of which broader strategy?
(A) Redefining the bank model of the future
(B) Analyzing the competition
(C) Setting specific goals by branch
(D) Focusing on non-interest income

Ans :

(A) Redefining the bank model of the future
This forward-looking strategy involves continuously evolving the branch model. By using advanced analytical tools, CRM systems, and segmentation, branches can gain deeper customer insights. This allows them to predict behavior, spot trends, and assess staff effectiveness, all as part of an ongoing process to determine the future role and function of the branch to maximize value.

Oct/Nov 2008

75. A bank branch is struggling with profitability. Its Non-Performing Assets (NPA) are at 8% and its Credit Deposit (CD) Ratio is at 50%. Based on the desirable levels mentioned in the text, what two areas require immediate focus?
(A) Increasing non-interest income and reducing staff costs.
(B) Increasing its CASA deposit ratio and holding more cash balance.
(C) Expanding its marketing campaigns and redesigning the branch layout.
(D) Reducing its NPA level and increasing its quality loans to improve the CD ratio.

Ans :

(D) Reducing its NPA level and increasing its quality loans to improve the CD ratio.
The text suggests a desirable NPA level of less than 3% and a desirable Credit Deposit (CD) ratio of around 70%. The branch's NPA of 8% is too high, and its CD ratio of 50% is too low. Therefore, the immediate focus should be on a relentless NPA reduction effort and on increasing quality lending.

May/June 2006

76. What is the desirable level for the Non-Performing Asset (NPA) percentage of a branch?
(A) Less than 10%
(B) Less than 3%
(C) Less than 7%
(D) Less than 5%

Ans :

(B) Less than 3%
A relentless focus on NPA reduction is a key step to improve profitability. High NPAs require higher provisioning, which directly subtracts from operational profit. Therefore, it is always desirable for a branch to maintain its NPA level below 3% to ensure a healthier loan book and better profitability.

Oct/Nov 2017

77. To ensure a healthy interest income stream, what is the desirable Credit Deposit (CD) ratio that a branch should aim for?
(A) Around 50%
(B) Around 60%
(C) Around 70%
(D) Around 80%

Ans :

(C) Around 70%
Banks primarily earn income from interest on loans. The Credit Deposit ratio indicates how much of a bank's core funds (deposits) are being used for lending. A higher ratio generally means higher interest income. The text suggests that a desirable CD ratio should be around 70% to ensure sufficient loan generation for profitability.

May/June 2008

78. Focusing on cross-selling products like insurance, mutual funds, and Demat accounts helps a branch improve profitability by:
(A) Increasing interest income.
(B) Reducing the Credit Deposit ratio.
(C) Improving the Capital Adequacy ratio.
(D) Increasing non-interest income.

Ans :

(D) Increasing non-interest income.

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These products generate revenue for the bank through commissions, fees, and charges rather than through interest. Therefore, focusing on cross-selling such products is a key strategy for boosting a branch's non-interest income. This diversifies the branch's revenue streams and makes its profitability less dependent on interest rate fluctuations and lending activities alone.

Oct/Nov 2013

79. What is the primary benefit for a bank to have a high percentage of CASA (Current Account Savings Account) Deposits?
(A) They bring down the overall cost of funds for the bank.
(B) These deposits are long-term and stable.
(C) They carry a very high rate of interest, attracting wealthy clients.
(D) They are exempt from CRR and SLR requirements.

Ans :

(A) They bring down the overall cost of funds for the bank.
CASA deposits are considered low-cost deposits because the interest paid on them is very low (nil on current accounts and 2-3% on savings accounts). A higher proportion of CASA deposits in a bank's total deposit base significantly lowers its average cost of funds, which in turn improves its Net Interest Margin (NIM) and overall profitability.

May/June 2015

80. In the current competitive banking scenario, a bank with a high CASA deposit ratio is considered better placed for high profitability. What is the benchmark ratio mentioned?
(A) Upwards of 15%
(B) Upwards of 35% (or one-third)
(C) Upwards of 25%
(D) Upwards of 50%

Ans :

(B) Upwards of 35% (or one-third)
Given the intense competition, having a strong base of low-cost funds is a significant competitive advantage. The text specifies that a bank with a higher CASA deposit ratio, defined as upwards of 35% or one-third of total deposits, is in a much better position to achieve high profitability in the current banking environment.

Oct/Nov 2012

81. What is the general guideline for a branch's cash holding limit to ensure minimum idle funds?
(A) Less than 5% of the branch deposit
(B) Less than 1% of the branch deposit
(C) Less than 3% of the branch deposit
(D) Less than 0.5% of the branch deposit

Ans :

(B) Less than 1% of the branch deposit
While a branch must hold cash to meet customer withdrawal demands, excess cash is an idle, non-earning asset. To optimize profitability, this cash holding should be kept to the minimum possible level. The text provides a general guideline that the cash holding limit should normally be less than 1% of the branch's total deposits.

May/June 2011

82. Which statement regarding cost management at the branch level is most accurate?
(A) Most branches can find some avoidable costs to reduce, but not at the expense of quality.
(B) All costs are fixed and cannot be managed at the branch level.
(C) Cost cutting is desirable, even if it is at the expense of the quality of products and services.
(D) Cost management is solely the responsibility of the head office.

Ans :

(A) Most branches can find some avoidable costs to reduce, but not at the expense of quality.
Close management of costs is a key driver of branch profitability. While most branches have opportunities to reduce avoidable costs, the text cautions against indiscriminate cost-cutting. It is explicitly stated that reducing costs at the expense of the quality of the bank's products and services is not a desirable strategy for long-term success.

Oct/Nov 2020

83. Assertion (A): A courteous and appreciative Branch Head can positively impact branch profitability.
Reason (R): When staff like marketing, recovery, and teller personnel are motivated and perform their jobs sincerely, it leads to better cross-selling, lower NPAs, and fewer customer complaints.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

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(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is true, as the Branch Head's leadership sets the tone. Reason (R) correctly explains this by linking the sincere performance of various staff roles directly to key profitability drivers. Sincere marketing improves sales, sincere recovery reduces NPAs (and provisions), and honest tellers improve customer satisfaction, all of which contribute to profitability.

May/June 2022

84. The principle "One size does not fit all" in the context of improving branch profitability implies that:
(A) All branches, regardless of size or location, must adopt the same core strategies.
(B) Larger, more complex branches require a greater number of profitability strategies than smaller ones.
(C) Most modern profitability solutions are only designed for and applicable to branches in urban areas.
(D) Strategies must be tailored to each branch's specific situation after careful analysis.

Ans :

(D) Strategies must be tailored to each branch's specific situation after careful analysis.
This principle underscores that there is no universal, readymade solution for improving profitability that will suit all branches. Each branch operates in a unique geographical location with different customer segments, competition, and resources. Therefore, improvement strategies must be carefully selected and implemented only after a proper study and analysis of the specific prevailing situations.

Oct/Nov 2014

85. Which of the following is NOT listed as an essential factor for making continuous improvement in profitability?
(A) Using Key Performance Indicators (KPIs) to analyse strengths and weaknesses.
(B) Regularly reviewing the pricing of products.
(C) Maintaining the same product prices indefinitely to ensure stability.
(D) Identifying areas of business waste and reducing them.

Ans :

(C) Maintaining the same product prices indefinitely to ensure stability.
Continuous improvement requires constant review and adaptation. The text suggests regularly reviewing product pricing and even testing price changes before making them permanent. Maintaining prices indefinitely without review would be contrary to the principle of continuous improvement, as it ignores changing market conditions, costs, and competitive pressures that affect profitability.

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May/June 2005

86. Using techniques like up-selling, cross-selling, and diversifying is a method to improve profitability through which group?
(A) Your suppliers
(B) Your best customers
(C) Your competitors
(D) Your new employees

Ans :

(B) Your best customers
The text identifies improving profitability through the best customers as a key factor. This is achieved by using techniques like up-selling (encouraging purchase of a more premium product), cross-selling (selling additional products), and diversifying the range of products they use. This deepens the relationship and increases the lifetime value of these important customers.

Oct/Nov 2023

87. Match the banking reform phase with its correct time period.
List-I (Phase)
P. The Early Phase
Q. The Nationalisation Phase
R. The Liberalisation Phase
List-II (Period)
1. 1969 to 1991
2. 1991 to present
3. 1770 to 1969
(A) P-1, Q-2, R-3
(B) P-3, Q-1, R-2
(C) P-2, Q-3, R-1
(D) P-3, Q-2, R-1

Ans :

(B) P-3, Q-1, R-2

The history of Indian banking is divided into three phases. Phase I, The Early Phase, was from 1770 to 1969. Phase II, The Nationalisation Phase, started with the first bank nationalization and lasted from 1969 to 1991. Phase III, The Liberalisation or Banking Sector Reforms Phase, began in 1991 and continues to the present day.

May/June 2019

88. Identify the incorrect statement regarding the types of profit.

(A) Net profit is calculated by deducting only taxes from operating profit.

(B) Gross profit is calculated by subtracting the cost of goods sold from sales.

(C) Operating profit is calculated by deducting operating expenses from gross profit.

(D) Each profit type provides different information about a company's performance.

Ans :

(A) Net profit is calculated by deducting only taxes from operating profit.

This statement is incorrect. Net profit is the income left over after all expenses have been paid. It is calculated by deducting both taxes and interest expenses from the operating profit. Ignoring interest expenses would lead to an inaccurate representation of the final "bottom-line" profit that is available to the company's owners or shareholders.

Oct/Nov 2010

89. Consider the following statements about ROA and ROE:

1. ROA is determined by the income earned on Net Interest Income and fees.
2. ROE is what the bank's owners are primarily interested in.
3. Because of leverage, banks typically earn a much larger return on equity than on assets.

Which of the above statements are correct?

(A) 1 and 2 only

(B) 2 and 3 only

(C) 1 and 3 only

(D) 1, 2, and 3

Ans :

(D) 1, 2, and 3

All three statements are correct. ROA is a function of a bank's ability to generate income from its assets. ROE is the primary concern for owners as it reflects the return on their specific investment. The use of leverage (funding assets with debt) magnifies the returns on the smaller equity base, causing ROE to be significantly higher than ROA.

May/June 2021

90. Based on the text: "In today's hyper-competitive market, banks need to move beyond a "one-size-fits-all" reward model particularly for the most profitable clients. They need to design a system which let profitable customers enjoy premium benefits and redeem rewards points easily and in various ways (for gift cards, merchandise, events and experiences, or cash)." What is the core idea behind 'Innovative Reward Design'?

(A) Focusing on a customized reward model for the most profitable clients.

(B) Offering the same reward points to all customers to ensure fairness.

(C) Eliminating reward programs to cut costs.

(D) Providing only cash as a reward option for simplicity.

Ans :

(A) Focusing on a customized reward model for the most profitable clients.

The source text explicitly states that banks need to move beyond a "one-size-fits-all" model, particularly for their most profitable clients. The core idea is to design a flexible and premium rewards system that offers customized benefits and multiple redemption options. This strategy aims to better retain and cater to high-value customers in a hyper-competitive market.

Oct/Nov 2006

91. A bank is designing its channel optimization strategy. It observes that a large portion of its customers are large commercial clients who value personalized service. Which approach would be most suitable for this bank?

(A) Aggressively promoting electronic account openings for every customer type.

(B) Closing most physical branches and shifting all services to a mobile-only platform.

(C) Enhancing social media capabilities to handle all routine customer support interactions.

(D) Focusing on dedicated relationship managers for high-value commercial accounts.

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Ans :

(D) Focusing on dedicated relationship managers for high-value commercial accounts.
The text notes there is no 'one-size-fits-all' approach to channel optimization. While some banks pursue a digital-first strategy, other banks, particularly those with large commercial customers, find success with a different approach. For these clients, focusing on high-touch personal service via a relationship manager can generate high-value business that more than offsets the added costs.

May/June 2012

92. Identify the correct pair from the following strategies and their descriptions.
(A) Business Realignment - Reducing the unit cost of each transaction.
(B) Staff Productivity - Using scorecards and improved motivation systems.
(C) Process Costs - Exiting business lines with low margins.
(D) Channel Optimization - Using automated business rules and decision models.

Ans :

(B) Staff Productivity - Using scorecards and improved motivation systems.
The pair in (B) is correct. Improving staff productivity involves using established performance management techniques, which include setting clearly defined expectations, using scorecards to measure performance, and implementing improved motivation and rewards systems. The other options incorrectly pair the strategy with the description of another strategy (A and C are swapped, D describes a part of technology/automation).

Oct/Nov 2025

93. Consider the following statements regarding factors affecting bank profitability:
1. NPAs have the most adverse impact on profitability.
2. There is a negative relationship between deposits and profitability.
3. Non-interest income is a factor in determining profitability.

Which of the statements is/are correct?
(A) 1 only
(B) 1 and 3 only
(C) 2 and 3 only
(D) 1, 2 and 3

Ans :

(B) 1 and 3 only
Statement 1 is correct as NPAs reduce income and increase provisions. Statement 3 is correct as non-interest income from fees and services is a key profitability driver. Statement 2 is incorrect; the text states there is a positive relationship between deposits and profitability, as more deposits provide more funds for lending and investment.

May/June 2007

94. Based on the text: "During the last a few years, many consumers migrated to virtual channels, with the result that customer visits to retail bank branches dropped by more than 20 percent. In response, banks cut costs by closing or merging hundreds of branches nationwide." What was the primary driver behind banks closing or merging branches?
(A) A regulatory mandate from the Reserve Bank of India.
(B) An increase in the operational cost of running physical branches.
(C) A strategy to focus exclusively on corporate banking.
(D) A significant decline in customer foot traffic due to migration to virtual channels.

Ans :

(D) A significant decline in customer foot traffic due to migration to virtual channels.
The source text explicitly links the action of closing and merging branches directly to a specific cause. It states that as consumers migrated to virtual channels, customer visits to branches dropped by over 20 percent. The text then says, "In response, banks cut costs by closing or merging...". This shows a clear cause-and-effect relationship.

Oct/Nov 2018

95. A bank is planning a real-time marketing campaign. A customer's transaction data shows a large payment to a wedding planner. According to the "moments-of-truth" concept, what would be the most appropriate next best action for the bank?
(A) Offer a personal loan for wedding costs or a home loan for a new house.
(B) Send the customer a standard brochure about retirement planning options.

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(C) Automatically increase the credit limit on their existing credit card without notice.
(D) Send an automated alert advising the customer to reduce their monthly spending.

Ans :

(A) Offer a personal loan for wedding costs or a home loan for a new house.
A wedding is a classic "moment-of-truth" that signals potential new financial needs. The most appropriate action for the bank is to use this insight to offer relevant products. A personal loan for wedding expenses, a joint account for the couple, or a home loan for a future purchase would be highly customized and timely offers.

May/June 2023

96. Which of the following is NOT a benefit of using Big Data technology in banking as mentioned in the text?
(A) Reduced overall cost associated with complex fraud investigations.
(B) Increasing the number of false positives to be overly cautious.
(C) Optimized product offers and improved cross-selling opportunities.
(D) Real-time detection and immediate mitigation of fraudulent activities.

Ans :

(B) Increasing the number of false positives to be overly cautious.
The text explicitly lists "screening and monitoring fewer false positives" as a key benefit of using Big Data. Increasing false positives would be counterproductive, leading to higher investigation costs and poor customer experience. Big Data analytics help refine fraud detection models to be more accurate, thereby reducing the number of legitimate transactions incorrectly flagged as fraudulent.

Oct/Nov 2009

97. Which of the following is an example of an 'Other Bank Specific Factor' affecting profitability?
(A) GDP growth rate
(B) Strength of equity capital
(C) Inflation growth rate
(D) Non-performing assets (NPAs)

Ans :

(B) Strength of equity capital
The text categorizes factors affecting profitability into three groups. GDP and inflation are Macro-economic factors. NPAs are listed as a primary Industry Specific Factor. Other Bank Specific Factors include deposits, non-interest income, Net Interest Margin (NIM), operational efficiency, Capital Adequacy, and the Strength of equity capital, which are internal to the bank itself.

May/June 2016

98. Consider the following statements to improve branch profitability:
1. The desirable NPA of the branch should be less than 3%.
2. The desirable credit deposit ratio should be around 70%.
3. The cash holding limit should normally be less than 1% of the branch deposit.

Which of the above statements are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2 and 3

Ans :

(A) 1 and 2 only
Statements 1 and 2 are correct as the text specifies a desirable NPA level of less than 3% and a desirable credit deposit ratio of around 70%. Statement 3 is incorrect because the text suggests a much tighter cash holding limit, which should normally be less than 1% of the branch deposit, not 5%.

Oct/Nov 2022

99. The practice of putting monitoring systems and processes in place to compare a bank's performance metrics against industry bests or its own past performance is known as:
(A) Diversifying
(B) Up-selling
(C) Benchmarking
(D) Bargaining

Ans :

(C) Benchmarking
Benchmarking is a process of measuring an organization's internal processes and performance metrics against those of best-in-class organizations or its own historical performance. The text lists putting monitoring systems and processes in place, such as benchmarking, as an essential factor for making continuous

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improvements in profitability by identifying areas for enhancement.

May/June 2018

100. According to the summary, what is the key difference between profit and profitability?

(A) Profit is a long-term measure, while profitability is a short-term measure.

(B) Profit is a relative ratio for comparison, while profitability is an absolute monetary amount.

(C) There is no difference; the terms are used interchangeably in financial reporting.

(D) Profit is an absolute amount, while profitability is a relative efficiency measure.

Ans :

(D) Profit is an absolute amount, while profitability is a relative efficiency measure.

The "Let Us Sum Up" section explicitly clarifies this distinction. It states that while the terms are often used interchangeably, they are not the same. Profit is defined as an absolute amount of money earned. In contrast, profitability is described as a relative concept and, more importantly, as a measurement of efficiency in generating that profit.

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CHAPTER 5
Customer Requirements

May/June 2016

1. According to the overview of retail banking, what is the primary source of repayment for retail asset products?
(A) Direct income generated from the commercial use of the asset being financed
(B) The customer's regular cash flows from salary, business, or other activities
(C) Proceeds from the voluntary or forced liquidation of other investments held by the customer
(D) Direct funds received from specific government subsidy or welfare schemes for asset purchase

Ans :

(B) The customer's regular cash flows from salary, business, or other activities
For retail assets like houses or vehicles, which generally do not generate income, repayment is expected from the borrower's regular cash flows. This includes salary for the employed, or income from business or other professional activities for the self-employed, forming the basis of the lending decision and repayment structure for individual customers.

Oct/Nov 2022

2. Which of the following is an example of a retail liability product?
(A) Term Deposit Accounts
(B) Home Loans
(C) Credit Card Receivables
(D) Auto Loans

Ans :

(A) Term Deposit Accounts
Retail banking products are broadly classified into liability products, asset products, and other services. Liability products represent the funds a bank owes to its customers. Savings, Current, and Term Deposit Accounts fall under this category, whereas loans and credit card receivables are considered asset products for the bank as they represent money owed to the bank.

May/June 2007

3. Which category of retail banking products includes services like Internet Banking, Mobile Banking, and Depository Services?
(A) Retail liability products
(B) Retail asset products
(C) Other products/services
(D) Core credit products

Ans :

(C) Other products/services
Beyond the core liability and asset products, banks offer a range of other facilities. These services, such as Internet Banking, Mobile Banking, Depository Services, and the distribution of third-party products like insurance and mutual funds, are designed to complement the main products and provide comprehensive financial solutions to the retail customer.

Oct/Nov 2025

4. What is the primary characteristic of the assessment approach for retail loan products?
(A) It involves a detailed, customized credit appraisal exercise for each individual applicant.
(B) It relies solely on the subjective judgment of the loan officer during a personal interview.
(C) It is a fully discretionary process with no fixed parameters or models for qualification.
(D) It is primarily based on scorecard assessments with predetermined eligibility criteria.

Ans :

(D) It is primarily based on scorecard assessments with predetermined eligibility criteria.
Retail lending is volume-driven, necessitating a standardized and efficient evaluation process. Banks use scorecard-based assessments where features related to who will qualify are predetermined. An applicant must fit into the prescribed criteria to qualify for the loan, which is different from the in-depth, customized credit appraisal exercise typical for corporate loans.

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May/June 2021

5. What is the very first step in the approval process for a retail loan after a prospective client is approached?

(A) Conducting a house visit to physically verify the stated residential address

(B) Performing a credit report verification from a Credit Information Company

(C) Collection of the application and necessary information for evaluation

(D) Finalizing the exact loan amount and repayment period with the customer

Ans :

(C) Collection of the application and necessary information for evaluation

Regardless of whether the applicant approaches the bank or the bank's team approaches the client, the process begins with the collection of the loan application form. This form, along with supporting documents, contains the essential information required by the bank to initiate the evaluation and determine the applicant's eligibility for the product.

Oct/Nov 2010

6. What is considered the primary step in processing a loan application after the initial collection of documents?

(A) Verification of the applicant's income documents, such as salary slips or ITRs

(B) Verification of the KYC documents of the loan applicant

(C) Title investigation of the property being offered as security for the loan

(D) Telephonic verification of the individual at their provided office number

Ans :

(B) Verification of the KYC documents of the loan applicant

Before proceeding with any other aspect of the loan evaluation, the bank must first verify the Know Your Customer (KYC) documents of the applicant. This is a mandatory regulatory requirement as per RBI norms on Anti-Money Laundering (AML) and KYC, and it serves as the foundational step for establishing the customer's identity and a legitimate banking relationship.

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May/June 2005

7. In the context of retail loan approval, what is the recommended practice regarding KYC verification?

(A) KYC verification can be outsourced to approved third-party agents to speed up processing.

(B) KYC norms can be significantly relaxed for existing customers with a long-standing relationship.

(C) KYC verification is only mandatory for high-value loan applications exceeding a certain threshold.

(D) KYC should be conducted directly by the bank without relaxation or outsourcing.

Ans :

(D) KYC should be conducted directly by the bank without relaxation or outsourcing.

To prevent fraud and ensure compliance, banks must be extremely careful with due diligence. It is explicitly stated that KYC verification should not be done by third-party agents and its standards should not be relaxed. This direct involvement by the bank is crucial to maintaining the integrity of the onboarding process and mitigating risks from unscrupulous applicants.

Oct/Nov 2014

8. If a customer's loan application is rejected based on a scorecard, but there are other valid reasons to consider them, how should the bank handle the situation?

(A) The exception should be handled carefully to ensure the customer is not harassed.

(B) The rejection should be considered final and no further communication is needed from the bank.

(C) The customer should be asked to re-apply through a different branch or digital channel.

(D) The rejection must be immediately communicated to the customer without providing any reasons.

Ans :

(A) The exception should be handled carefully to ensure the customer is not harassed.

Banks use scorecards for standardization, but exceptions can occur. These situations, where a customer might be eligible despite the scorecard or where information was collected poorly, require careful handling. The objective

is to manage the customer's expectations and experience positively, ensuring they are not harassed and do not have a reason to complain.

May/June 2019

9. For housing loans for construction, what specific due diligence must a bank perform regarding the property developer?

(A) Verify if the developer is offering a promotional discount on the property price.
(B) Confirm the exact number of employees currently working for the developer.
(C) Check the developer's market standing and promptness in project delivery.
(D) Assess the developer's recent stock market performance and dividend history.

Ans :

(C) Check the developer's market standing and promptness in project delivery.
When financing a property under construction, the risk is not just with the borrower but also with the project's completion. Therefore, a key due diligence step for the bank is to assess the credibility of the property developer. This includes evaluating their reputation, track record for timely project completion, and overall market standing.

Oct/Nov 2006

10. What verification is mandated for housing projects under the Real Estate (Regulation and Development) Act, 2016?

(A) Verification that the project is registered under RERA as required by the state.
(B) Verification that the project offers a minimum of 10% green space or open area.
(C) Verification that the project has been financially audited by a central government agency.
(D) Verification that the project's marketing materials have been pre-approved by RERA.

Ans :

(A) Verification that the project is registered under RERA as required by the state.
The Real Estate (Regulation and Development) Act, 2016 (RERA) was enacted to protect homebuyers and enhance transparency in the real estate sector. As part of due diligence for housing loans, banks must verify that the project is duly registered under RERA, where applicable according to state-level regulations, to ensure legal compliance and project legitimacy.

May/June 2012

11. Which of the following is NOT listed as a detail to be verified during the due diligence process for retail loans?

(A) Verification of PAN number from the official IT department website
(B) Credit Report verification from approved Credit Information Companies
(C) House visit to ensure the correctness of the stated residential address
(D) Verification of the applicant's social media activity and online presence

Ans :

(D) Verification of the applicant's social media activity and online presence
The due diligence process involves several specific verification steps to establish the authenticity of the applicant's details. These include KYC verification, PAN verification, income verification, credit report checks, residential address confirmation through a house visit, and telephonic verification. Verification of social media activity is not mentioned as a standard part of this formal process.

Oct/Nov 2018

12. What is the purpose of a "Title investigation of the property offered as security"?

(A) To determine the current market value and potential appreciation of the property
(B) To ensure the property has a clear and marketable title free from encumbrances
(C) To inspect the physical condition and structural integrity of the property
(D) To confirm the property is registered under RERA and other local building codes

Ans :

(B) To ensure the property has a clear and marketable title free from encumbrances
A title investigation, typically conducted by a bank-appointed legal adviser, is a crucial due diligence step for secured loans like home loans. Its purpose is to examine the legal ownership history of the property to ensure that the borrower has a clear, valid, and marketable title, free from any encumbrances that could jeopardize the bank's security.

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May/June 2023

13. As a part of the due diligence process, what is the role of a bank-appointed valuer?
(A) To vet the legal soundness of the security documents prepared for the loan
(B) To conduct the mandatory telephonic verification of the applicant's employment
(C) To assess the valuation of the property offered as security
(D) To verify the authenticity of the PAN number from the IT department website

Ans :

(C) To assess the valuation of the property offered as security
In cases of loans secured by property, a bank-appointed valuer is tasked with conducting a professional valuation of that property. This step is essential to ascertain the current market value of the collateral. The valuation report helps the bank determine the appropriate loan amount to be sanctioned, ensuring it is within the acceptable loan-to-value (LTV) ratio.

Oct/Nov 2009

14. What is the typical quantum of loan expressed for personal loans in relation to the applicant's income?
(A) 4 times the gross annual income
(B) 48 to 60 times the net monthly income
(C) 2 times the gross annual income
(D) 12 times the net monthly income

Ans :

(D) 12 times the net monthly income
The quantum of a retail loan is often linked to the borrower's income, with different multiples used for different loan types. For loans intended for personal expenses, the quantum is generally expressed as a multiple of the individual's monthly income, with a common benchmark being around 12 times the monthly income, though this can vary between banks.

May/June 2018

15. For vehicle loans, the quantum of loan is typically calculated as:
(A) 4 times the annual income
(B) 12 times the monthly income
(C) 48 to 60 times the monthly income
(D) A fixed percentage, such as 15% to 30%, of the asset's value

Ans :

(A) 4 times the annual income
Banks use different income multiples to determine the maximum loan amount for various products. For vehicle loans, a common guideline for determining the loan quantum is to use a multiple of the applicant's annual income. A typical benchmark mentioned is 4 times the annual income of the individual, subject to other eligibility criteria.

Oct/Nov 2016

16. The margin for a retail loan, which is the portion of the asset's value not financed by the bank, typically varies from:
(A) 5% to 10%
(B) 15% to 30%
(C) 10% to 20%
(D) 35% to 50%

Ans :

(B) 15% to 30%
Margin, or the down payment, represents the borrower's contribution towards the asset's cost. For retail loans, this amount is not fixed and can vary based on the type of loan, the specific scheme, and the bank's internal policies. The typical range for this margin is between 15% and 30% of the asset's value.

May/June 2014

17. What is the typical repayment period for auto loans?
(A) 3 to 5 years
(B) 5 to 7 years
(C) 5 to 30 years
(D) 1 to 2 years

Ans :

(B) 5 to 7 years
The repayment tenure for retail loans is determined by the purpose and nature of the loan. Auto loans, used for financing vehicles, generally have a medium-term repayment period. The typical duration for repaying an auto loan ranges from 5 to 7 years, balancing the EMI amount with the depreciating nature of the asset.

Oct/Nov 2007

18. What is the primary purpose of calculating the Fixed Obligation to Income Ratio (FOIR) for salaried borrowers?
(A) To ensure the borrower maintains sufficient

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net take-home pay after all obligations
(B) To determine the maximum loan amount based solely on gross income, ignoring other debts
(C) To calculate the applicable processing charges and other upfront fees for the loan
(D) To assess the applicant's credit score and history from a certified credit bureau

Ans :

(A) To ensure the borrower maintains sufficient net take-home pay after all obligations
Banks calculate the FOIR to assess a borrower's repayment capacity. It helps ensure that after deducting all fixed obligations, including the proposed loan's EMI, the borrower still has sufficient disposable income or net take-home pay. This practice prevents over-leveraging and ensures the borrower's lifestyle is not unduly strained, reducing the risk of default.

May/June 2025

19. According to the fair practices code for bankers, what information regarding prepayment must be clearly communicated to the borrower?
(A) The minimum amount that can be prepaid in a single transaction
(B) The specific number of times prepayment is allowed per financial year
(C) Any penalties that may be levied for prepayment of the loan
(D) The potential tax benefits that may be associated with prepayment

Ans :

(C) Any penalties that may be levied for prepayment of the loan
Transparency is a key principle of the fair practices code for bankers. It is important that all terms and conditions are clearly disclosed to the applicant. This includes explicitly spelling out any penalties that may be applicable if the borrower chooses to prepay the loan before the end of its original tenure.

Oct/Nov 2019

20. After a loan is sanctioned, to whom is the disbursement amount preferably effected in the case of fixed assets like vehicles?
(A) Directly to the borrower's personal savings account
(B) To a joint escrow account held by the borrower and the bank
(C) To the legal adviser who was responsible for vetting the documents
(D) To the suppliers or manufacturers of the fixed assets

Ans :

(D) To the suppliers or manufacturers of the fixed assets
To ensure that the loan amount is used for its intended purpose, banks often disburse the funds directly to the third party involved in the transaction. For fixed assets like cars, this means the payment is made directly to the supplier or manufacturer (e.g., the car dealer), rather than to the borrower's personal account.

May/June 2009

21. What is the primary reason for customer segmentation in retail banking?
(A) To offer the exact same product to all customers to ensure service uniformity
(B) To reduce the total number of products and services offered by the bank
(C) To pitch the right product to the right customer for successful banking
(D) To comply with regulatory requirements for mandatory customer classification

Ans :

(C) To pitch the right product to the right customer for successful banking
Customer segmentation is a crucial strategy in retail banking because different customers have different financial needs and preferences. By grouping customers into segments based on factors like income or life stage, banks can develop and market products and services that are specifically tailored to meet the unique requirements of each group, thereby increasing business success.

Oct/Nov 2011

22. Based on the provided table, a customer with an annual income of ₹8 lakh falls into which segment?
(A) Mass Affluent
(B) Mass Market
(C) Super Affluent
(D) HNW

Ans :

(B) Mass Market

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The provided table segments customers based on their annual income levels. The "Mass Market" segment is defined as customers having an income between ₹2 lakh and ₹10 lakh per annum. Therefore, a customer earning ₹8 lakh annually would be classified within this specific segment according to the given data from Celent Research.

May/June 2010

23. Which three customer segments are identified as the most important for a bank's retail banking initiatives?

(A) HNW, Super HNW, and Ultra HNW
(B) Mass Market, HNW, and Ultra HNW
(C) Mass Affluent, Super Affluent, and HNW
(D) Mass Market, Mass Affluent, and Super Affluent

Ans :

(D) Mass Market, Mass Affluent, and Super Affluent
While banks cater to all income levels, the core of retail banking business is often focused on a broad base of customers. The Mass Market, Mass Affluent, and Super Affluent segments represent the largest group of potential customers for standard retail products and services, making them the most important segments for these banking initiatives.

Oct/Nov 2024

24. Identify the incorrect statement among the fundamental assumptions about customers for building retail banking products.

(A) The requirements of customers for financial services will be identical.
(B) Customers are different and so are their expectations for service.
(C) Customers can be broadly grouped together based on their need pyramids.
(D) Product and services can be structured on a niche basis for specific groups.

Ans :

(A) The requirements of customers for financial services will be identical.
A fundamental assumption in retail banking is that customer needs are diverse and unique. While customers can be grouped based on similar characteristics, their individual requirements for financial services will vary. The statement that these requirements will be identical contradicts the very basis of customer segmentation and product customization in the banking industry.

May/June 2017

25. Which theory is mentioned as appropriate for understanding how banks structure products to match the different stages of the need pyramid of customers?

(A) Herzberg's Two-Factor Theory of motivation
(B) Vroom's Expectancy Theory of motivation
(C) Maslow's Hierarchy of Needs Theory
(D) McGregor's Theory X and Theory Y of management

Ans :

(C) Maslow's Hierarchy of Needs Theory
To understand the spectrum of customer needs and develop suitable products, banks can use established psychological models. The text specifically suggests that Maslow's Hierarchy of Needs theory is appropriate for this purpose. It helps banks understand the progression of customer needs and structure their product offerings to match these different life stages effectively.

Oct/Nov 2005

26. According to Abraham Maslow's theory of motivation, what happens when one need is fulfilled?

(A) The person seeks to fulfill the next need in the hierarchy.
(B) The person stops being motivated by any further needs.
(C) The person returns to fulfilling the most basic physiological need again.
(D) The person becomes demotivated by the challenge of higher-level needs.

Ans :

(A) The person seeks to fulfill the next need in the hierarchy.
Maslow's theory is based on a progression. It states that human motivation operates in a hierarchical manner. Once a particular level of need is reasonably satisfied, it ceases to be a primary motivator, and the individual's focus shifts towards achieving the next, higher-level need in the pyramid, driving their behavior and choices.

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May/June 2020

27. Which of the following represents the correct sequence of needs in Maslow's five-stage model, from the lowest to the highest level?

(A) Physiological, Social, Safety, Esteem, Self-actualization

(B) Safety, Physiological, Esteem, Social, Self-actualization

(C) Social, Esteem, Safety, Physiological, Self-actualization

(D) Physiological, Safety, Social, Esteem, Self-actualization

Ans :

(D) Physiological, Safety, Social, Esteem, Self-actualization

Maslow's Hierarchy of Needs is structured as a pyramid with five distinct levels. The progression starts from the most fundamental needs at the base and moves upwards. The correct order is: Physiological needs (basic survival), Safety needs (security), Social needs (belonging), Esteem needs (respect), and finally, Self-actualization needs (fulfilling one's potential).

Oct/Nov 2015

28. What is the highest level of need in Maslow's hierarchy?

(A) Esteem Needs

(B) Self-actualization Needs

(C) Social Needs

(D) Safety Needs

Ans :

(B) Self-actualization Needs

The pinnacle of Maslow's five-stage model is the need for self-actualization. This level represents the desire to achieve one's full potential and become the best version of oneself. It is a growth need that can only be pursued after the lower-level deficiency needs (Physiological, Safety, Social, and Esteem) have been reasonably satisfied.

May/June 2013

29. According to the provided illustration, which banking product is matched with Physiological Needs?

(A) Housing Loans

(B) Consumer Loans

(C) Core Savings Accounts

(D) Fixed Deposit Products

Ans :

(C) Core Savings Accounts

The table maps different financial products to the levels of Maslow's need hierarchy. For the most basic level, Physiological Needs, the corresponding banking products listed are Core Savings Accounts and Personal Accident Cover. These products address the fundamental requirement of having a secure place to keep money for basic life necessities and a safety net.

Oct/Nov 2021

30. Which of the following products are categorized under Security/Safety Needs in the context of matching them with Maslow's hierarchy?

(A) Personal Loans and Car Loans for social mobility

(B) Pensioners Loans and comprehensive Retirement Solutions

(C) Second Housing Loans and luxury Home Décor Loans

(D) Recurring Deposits and Life Insurance Products

Ans :

(D) Recurring Deposits and Life Insurance Products

The Security/Safety Needs level in Maslow's hierarchy pertains to securing one's future and protecting against unforeseen events. Financial products like Recurring Deposits, Fixed Deposits, and Life Insurance (especially endowment products) align with this need by providing a mechanism for systematic savings, financial security, and protection for the family's future, ensuring stability.

May/June 2024

31. Loans for professional development for doctors, engineers, and lawyers are mapped to which level of customer needs?

(A) Social Needs

(B) Physiological Needs

(C) Security/Safety Needs

(D) Esteem Needs

Ans :

(A) Social Needs

The provided illustration places loans for professional development under the category of Social Needs. While it may seem counterintuitive, in this context, professional development and the assets acquired through it (like a car or a better home) are often linked to one's social standing,

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belonging to a professional group, and family life, which are elements of Social Needs.

Oct/Nov 2008

32. Which of the following loan products are associated with Esteem Needs?
(A) Core Savings Accounts for basic transactions
(B) Second Housing Loans/Home Improvement Loans
(C) First Home Loan for providing shelter to the family
(D) Personal Accident Cover for basic financial protection

Ans :

(B) Second Housing Loans/Home Improvement Loans
Esteem needs relate to achievement, status, and recognition. While a first home loan can be linked to security or social needs, acquiring a second house or undertaking significant home improvement or décor projects often signifies financial success and a higher status. Therefore, these products are appropriately matched with the Esteem Needs level in the hierarchy.

May/June 2006

33. Products like Pensioners Loans and Retirement Solutions are designed to cater to which level of Maslow's hierarchy?
(A) Physiological Needs
(B) Self-Actualization Needs
(C) Social Needs
(D) Esteem Needs

Ans :

(B) Self-Actualization Needs
Self-Actualization is about achieving one's full potential, which in later life stages often involves a secure and independent retirement. Products such as Pensioners Loans, Retirement Solutions, and Senior Citizens Term Deposits provide the financial freedom and resources necessary for individuals to pursue personal interests and live a fulfilling life post-retirement, aligning perfectly with this need.

Oct/Nov 2017

34. Identify the incorrect pair of Need Level and its corresponding financial product based on the provided illustration.
(A) Social Needs - Special Term Deposit Products
(B) Physiological Needs - Personal Accident Cover
(C) Security/Safety Needs - Tax Planning Products
(D) Self-Actualization Needs - Senior Citizens Term Deposit Products

Ans :

(A) Social Needs - Special Term Deposit Products
According to the table matching products to needs, Special Term Deposit Products are listed under Esteem Needs, not Social Needs. Social Needs are associated with products like Consumer Loans, Personal Loans, and Car Loans. Therefore, the pairing of Social Needs with Special Term Deposit Products is incorrect as per the provided classification.

May/June 2008

35. What is the outcome when the actual service provided by a bank is better than the customer's expectations?
(A) Customer Satisfaction
(B) Customer Dissatisfaction
(C) Customer Delight
(D) Customer Neutrality

Ans :

(C) Customer Delight
Customer satisfaction is a function of expectations versus performance. When the actual service received not only meets but exceeds the customer's preconceived expectations, it results in a highly positive emotional response. This state, which goes beyond simple satisfaction, is known as Customer Delight and is a key goal in high-quality service delivery.

Oct/Nov 2013

36. If a bank's service quality is less than what a customer expects, it will lead to:
(A) Customer Delight
(B) Customer Satisfaction
(C) Customer Advocacy
(D) Customer Dissatisfaction

Ans :

(D) Customer Dissatisfaction
The relationship between service performance and customer expectation dictates the customer's perception of quality. When the service delivered by the bank fails to meet the minimum level of performance that the customer was expecting, a service quality gap is created. This gap results in

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a negative evaluation by the customer, leading directly to customer dissatisfaction.

May/June 2015

37. A customer visits a bank branch and notices that the premises are clean, the equipment is modern, and the brochures are professionally designed and easy to read. Which dimension of service quality is being evaluated by the customer?
(A) Reliability
(B) Assurance
(C) Tangibles
(D) Empathy

Ans :

(C) Tangibles
The 'Tangibles' dimension of service quality refers to the physical evidence of the service. This includes the appearance of the physical facilities, equipment, personnel, and communication materials. The customer's positive observation of the branch's cleanliness, modern equipment, and professional brochures directly relates to this dimension, as it provides physical cues about the quality of the bank's service.

Oct/Nov 2012

38. The ability of a bank to perform the promised service dependably and accurately is known as which dimension of service quality?
(A) Responsiveness
(B) Reliability
(C) Assurance
(D) Empathy

Ans :

(B) Reliability
Reliability is a cornerstone of service quality and refers to the trustworthiness of the service provider in delivering on its promises. It involves performing the service correctly the first time, honoring commitments, and ensuring accuracy in all transactions and communications. An example is a loan officer following up on a sanction timeline as promised.

May/June 2011

39. A customer reports a wrongful debit on their bank statement. The bank acknowledges the issue promptly and ensures the amount is re-credited to the account quickly. This action demonstrates which dimension of service quality?
(A) Tangibles
(B) Empathy
(C) Assurance
(D) Responsiveness

Ans :

(D) Responsiveness
Responsiveness is defined as the willingness to help customers and provide prompt service. When a problem arises, a responsive organization acts quickly and effectively to resolve it. The bank's swift action to acknowledge the customer's problem and rectify the erroneous debit demonstrates a high degree of responsiveness, a critical factor in service recovery and customer satisfaction.

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Oct/Nov 2020

40. The 'Assurance' dimension of service quality includes all of the following components EXCEPT:
(A) Access
(B) Competence
(C) Courtesy
(D) Credibility

Ans :

(A) Access
The Assurance dimension aims to inspire trust and confidence in the customer. It is composed of several elements: Competence (skills and knowledge), Courtesy (politeness and respect), Credibility (trustworthiness), and Security (freedom from risk). 'Access', which refers to approachability and ease of contact, is a component of the 'Empathy' dimension, not 'Assurance'.

May/June 2022

41. Politeness, respect, consideration, and friendliness of contact personnel are components of which element within the 'Assurance' dimension?
(A) Competence
(B) Credibility
(C) Courtesy
(D) Security

Ans :

(C) Courtesy
Within the broader dimension of Assurance, 'Courtesy' specifically relates to the interpersonal aspect of the service encounter. It encompasses the politeness, respect, consideration, and friendliness demonstrated by the bank's staff.

This behavior helps in creating a positive and welcoming environment for the customer, thereby building trust and confidence in the service provider.

Oct/Nov 2023

42. The 'Empathy' dimension of service quality is primarily concerned with:
(A) The approachability and ease of contact with the bank
(B) The physical appearance of the bank's facilities and staff
(C) The accuracy and dependability of the bank's transaction records
(D) The professional knowledge and skills of the bank's employees

Ans :

(A) The approachability and ease of contact with the bank
Empathy in service quality involves the caring, individualized attention the firm provides its customers. A key component of this is 'Access', which means the bank is easy to contact and approachable. It also includes understanding the customer's needs and keeping them informed in a language they can understand, demonstrating a customer-centric perspective.

May/June 2016

43. Which of the following actions best demonstrates the principle of "Value Customer, his business and time"?
(A) Offering a single standardized solution to every customer's problem
(B) Explaining in detail why the customer's problem is not significant
(C) Asking the customer to come back on another day to resolve the issue
(D) Attending to the customer at the earliest opportunity

Ans :

(D) Attending to the customer at the earliest opportunity
Valuing a customer's time is a critical aspect of good service. This principle is demonstrated by actions such as greeting the customer upon arrival, respecting their time by not making them wait unnecessarily, and attending to their needs as promptly as possible. Trivializing their problem or delaying service would show a lack of respect for their time.

Oct/Nov 2009

44. When a customer raises an issue, what is the recommended approach for the bank?
(A) Deny the existence of the problem and provide multiple excuses
(B) Offer help by taking action and providing possible solutions
(C) Immediately suggest the customer contact a higher authority or ombudsman
(D) Blame a different department or a system error for the issue

Ans :

(B) Offer help by taking action and providing possible solutions
A key principle of effective customer service and problem resolution is to "provide solutions, not excuses." When a customer expresses a concern, the bank's representative should avoid being defensive or making excuses. Instead, they should take ownership by initiating action, providing a direct solution, or suggesting viable alternatives to resolve the issue constructively.

May/June 2023

45. What is the first recommended step in understanding a customer's query or concern?
(A) Immediately provide a solution based on initial keywords
(B) Suggest an alternative product or service to the customer
(C) Listen to the customer without interruption
(D) Acknowledge the bank's official policy on the matter

Ans :

(C) Listen to the customer without interruption
To effectively address a customer's concern, one must first fully understand it. The process of understanding begins with active listening. Before jumping to conclusions or offering solutions, the service provider must give the customer their full attention, allowing them to explain the issue from their perspective without interruption, which is the foundational step for problem resolution.

Oct/Nov 2018

46. A research study on customer service quality measured satisfaction based on three basic parameters. Which of the following was one of those parameters?
(A) Product variety

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(B) Branch location
(C) Interest rates
(D) Advocacy

Ans :

(D) Advocacy
The research study mentioned measured customer satisfaction using a few key high-level indicators. The three basic parameters used were Overall Satisfaction, Advocacy (the likelihood of a customer recommending the bank), and Loyalty. These metrics provide a comprehensive view of the customer's relationship with and perception of the bank, beyond just satisfaction with a single transaction.

May/June 2007

47. According to the findings of a research study on customer service quality, what proportion of customers felt their experience with banks had improved in the last 1-2 years?
(A) 2/3rd of customers
(B) 1/2 of customers
(C) 1/3rd of customers
(D) 1/4th of customers

Ans :

(A) 2/3rd of customers
The study revealed a generally positive trend in customer experience. When customers were asked to reflect on how their experience with their banks had changed over the preceding one to two years, a significant majority—two-thirds of the respondents—stated that it had either "improved a lot" or "somewhat improved," indicating progress in service delivery across the industry.

Oct/Nov 2025

48. As per the satisfaction index findings, which type of bank leads in the Savings Accounts and Credit Cards product categories?
(A) Public Sector Banks
(B) Private Sector Banks
(C) Foreign Banks
(D) Cooperative Banks

Ans :

(B) Private Sector Banks
The research study's findings on the satisfaction index showed performance differences among bank types for various products. It was observed that Private Sector Banks tend to lead in terms of customer satisfaction for Savings Accounts and Credit Cards, while Public Sector Banks and Foreign Banks showed stronger performance in the Home Loans category.

May/June 2012

49. The research study identified that among all customer touch points, the key drivers of the satisfaction index are:
(A) ATM availability and mobile application features
(B) Branch interactions and communication
(C) Website design and call center response time
(D) Interest rates and associated processing fees

Ans :

(B) Branch interactions and communication
While multiple channels contribute to the customer experience, the study highlighted two as particularly influential. Among the various touch points or channels of interaction, direct interactions at the branch and the quality of communication from the bank were identified as the key drivers that have the most significant impact on the overall customer satisfaction index.

Oct/Nov 2014

50. In the service quality analysis of a south-based public sector bank's savings accounts, how did its performance on "Branch-Layout and Cash transactions" compare to the private sector average?
(A) Above the private sector average
(B) Significantly below the private sector average
(C) At par with the private sector average
(D) The comparison was not made in the study

Ans :

(A) Above the private sector average
The detailed analysis of a specific PSU bank revealed its strengths in certain areas. Regarding the service dimensions related to the physical branch environment and cash transaction handling, the bank's performance was found to be above the average performance of Private Sector Banks, indicating a competitive advantage in these specific operational aspects.

May/June 2019

51. What was the Key Performance Indicator (KPI) for Savings Account Activation Time, and how did the PSU bank's performance compare to the industry average?

NODIA

(A) Activation within a 1-day window, which was better than the industry average
(B) Activation within a 7-day window, which was below the industry average
(C) Activation within a 3-day window, which was similar to the industry average
(D) Activation within a 5-day window, which was similar to the industry average

Ans :

(C) Activation within a 3-day window, which was similar to the industry average
The study measured specific KPIs to quantify service delivery. For new savings accounts, the target for activation time was a 3-day window from the application. The analyzed public sector bank's performance on this metric was found to be similar to the overall industry average, indicating it was meeting the standard market expectation for this process.

Oct/Nov 2006

52. According to the study, what percentage of a PSU bank's customers received their Welcome Kit within 14 days?
(A) About 50 percent
(B) About 75 percent
(C) Less than 40 percent
(D) Close to 90 percent

Ans :

(D) Close to 90 percent
The timely delivery of the Welcome Kit is a key performance indicator for customer onboarding. The service quality analysis for the south-based public sector bank showed strong performance in this area. It was found that close to 90 percent of its new customers received their welcome kit within the specified timeframe of 14 days.

May/June 2021

53. On the Customer Mind space (Image Map) for savings accounts, how did the analyzed PSU Bank differentiate itself among its customers?
(A) On offering the lowest fees and highest interest rates on deposits
(B) On having the most advanced and feature-rich mobile banking application
(C) On problem resolution and delivering on promise
(D) On having the most aesthetically attractive and modern branch facilities

Ans :

(C) On problem resolution and delivering on promise
The Customer Mind space or Image Map analysis reveals how a brand is perceived by its customers relative to competitors. For the analyzed PSU bank, its key differentiating factors in the minds of its savings account customers were its effectiveness in resolving problems and its reliability in delivering on its promises, highlighting strengths in dependability.

Oct/Nov 2010

54. Which of the following was NOT suggested as a measure to enhance service quality for savings accounts?
(A) Improve transaction time at the branch for various services
(B) Relook at branch offerings and the complete range of services
(C) Relook at current channels and their ease of access and usage
(D) Increase the number of physical branches in urban areas

Ans :

(B) Relook at branch offerings and the complete range of services
The study suggested several improvements for savings account services. These included reducing transaction times, reassessing the range of services offered at branches, and addressing the lack of adequate channels and their ease of use. The suggestion to specifically increase the number of physical branches in urban areas was not mentioned in this context.

May/June 2005

55. A PSU bank, which came second in service quality for home loans, wants to improve its customer satisfaction further. According to the study's findings, which two aspects are the most important drivers of overall experience that the bank should focus on?
(A) Loan interest rate and processing fee amounts
(B) Branch operating timings and staff uniforms
(C) The digital application process and ATM network size
(D) Product features and communication

Ans :

(D) Product features and communication

NODIA

In the context of home loans for the analyzed PSU bank, the study identified the specific drivers of satisfaction. It found that product features (like tenure, eligibility, etc.) and the communication from the bank were the most important touch points that drove the overall customer experience. Therefore, focusing on these two areas would yield the greatest improvement.

Oct/Nov 2022

56. How did the analyzed PSU Bank's home loan disbursement time compare to the industry average?
(A) Disbursement within the 14-day window was far higher than the industry average.
(B) It was significantly slower than the overall industry average.
(C) It was on par with the overall industry average.
(D) The study did not contain any comparison of disbursement times.

Ans :

(A) Disbursement within the 14-day window was far higher than the industry average.
The analysis of the PSU bank's home loan services highlighted a key area of superior performance. The bank's ability to complete loan disbursement within a 14-day window was found to be far higher than the overall industry average. This indicates a significant competitive strength in process efficiency for its home loan product.

May/June 2018

57. For home loans, the Customer Mind space (Image Map) showed that the analyzed PSU Bank differentiated itself on which attributes?
(A) Offering the lowest interest rates and most flexible repayment options
(B) The strength of its brand reputation and national marketing campaigns
(C) Responsiveness and customer service
(D) Superiority of its technology and digital platforms

Ans :

(C) Responsiveness and customer service
The Customer Mind space analysis for home loans revealed how the PSU bank was perceived by its customers. Among its customer base, the bank was differentiated from competitors based on its responsiveness—the willingness to help promptly—and its overall customer service. These attributes formed the core of its positive image in the home loan segment.

Oct/Nov 2016

58. Which of the following is a suggested measure for banks to enhance overall customer service?
(A) Developing proactive customer communication with a systemic approach
(B) Focusing on performance in only one key parameter, such as speed
(C) Reducing the range of product features to simplify all offerings for customers
(D) Limiting employee training on service quality to only new hires in the bank

Ans :

(A) Developing proactive customer communication with a systemic approach
To enhance customer service, a reactive approach is insufficient. The study suggests that banks should adopt a systemic and proactive approach to customer communication. This involves anticipating customer needs for information and providing it in a structured, timely manner, rather than only communicating when a problem arises, thereby improving the overall customer experience.

May/June 2014

59. One of the general requirements customers have from their banks is the "Right channel mix". What does this refer to?
(A) Offering only direct channels like branches for a personal touch
(B) Offering only e-channels like internet and mobile banking for efficiency
(C) Offering a single, highly efficient channel for all types of services
(D) Offering a suitable combination of both direct and e-channels

Ans :

(D) Offering a suitable combination of both direct and e-channels
Customers have diverse preferences for how they interact with their bank. The "Right channel mix" refers to the bank's ability to provide a balanced and integrated set of service delivery channels. This includes both direct channels (like branches) and e-channels (like internet banking, mobile apps), allowing customers to choose the most convenient option for their needs.

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Oct/Nov 2007

60. Which of the following is listed as a general customer requirement from banks for maintaining their relationship?

(A) Complicated product features that provide more customization options
(B) Transparent dealings and service charges
(C) A variable service experience across different channels and branches
(D) A slow but thorough and detailed grievance redressal mechanism

Ans :

(B) Transparent dealings and service charges
Trust is fundamental to the banking relationship. One of the key requirements customers have is for the bank to be transparent in its dealings. This includes clear communication about product terms, conditions, and, importantly, any service charges or fees that may be levied. Hidden charges or a lack of clarity can quickly erode customer trust and loyalty.

May/June 2025

61. What is the likely consequence if a bank fails to meet the general expectations of its customers, such as providing a satisfactory service experience and effective grievance redressal?

(A) Increased customer loyalty and positive word-of-mouth advocacy
(B) A significant peak in customer satisfaction index levels
(C) Dissatisfaction, deterioration of loyalty, and customer switching
(D) No significant or noticeable impact on the customer relationship

Ans :

(C) Dissatisfaction, deterioration of loyalty, and customer switching
Meeting customer expectations is crucial for retention. If there is a deficiency in meeting key requirements like service experience, transparency, or grievance redressal, it will lead to customer dissatisfaction. This dissatisfaction, if unaddressed, erodes loyalty over time and can ultimately trigger the customer to switch their banking relationship to a competitor who better meets their needs.

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Oct/Nov 2019

62. The summary states that customer segmentation is a strategy applied to group a set of customers having similar:

(A) Surnames
(B) Account numbers
(C) Ages only
(D) Needs

Ans :

(D) Needs
The core purpose of customer segmentation is to identify and group customers who share common characteristics, which in turn leads to similar needs for financial products and services. By understanding these shared needs, banks can tailor their offerings and marketing messages more effectively, moving away from a one-size-fits-all approach to a more targeted and relevant one.

May/June 2009

63. Identify the correct statement regarding retail banking products.

(A) Distribution of mutual funds is classified under 'Other products/services'.
(B) Retail liability products include financial instruments like Personal Loans and Auto Loans.
(C) Retail asset products such as home loans generally generate direct income for the customer.
(D) The credit appraisal process for retail loans is identical to that for corporate loans.

Ans :

(A) Distribution of mutual funds is classified under 'Other products/services'.
Retail banking offerings are categorized into assets, liabilities, and other services. The distribution of third-party products like insurance policies and mutual funds does not fall under the bank's core assets or liabilities but is a fee-based service. Therefore, it is correctly classified under the 'Other products/services' category, expanding the bank's offerings.

Oct/Nov 2011

64. Which of the following is a crucial due diligence step specifically for a loan against immovable property?

(A) Verification of the original invoice from an authorized dealer or seller

(B) Vetting of security documents by the bank's legal adviser
(C) Verification of admission and fee details from the educational institution
(D) Verification of the applicant's past academic records and qualifications

Ans :

(B) Vetting of security documents by the bank's legal adviser
When immovable property is offered as security, the legal aspects are paramount. A critical due diligence step is the vetting of all security documents by the bank's legal adviser. This ensures that the documents are legally sound, enforceable, and correctly create the bank's charge over the property, protecting its interest in case of default.

May/June 2010

65. Mr. Kumar, a salaried individual, applies for a home loan. The bank calculates that the proposed EMI, along with his existing car loan EMI and credit card payments, amounts to 65% of his gross monthly income. The bank's policy caps the FOIR at 50%. What is the most probable action the bank will take?
(A) Sanction the loan as applied for, but at a significantly higher interest rate.
(B) Reject the loan application due to excessive obligations.
(C) Sanction the loan but ask for additional, un-mortgaged collateral security.
(D) Disburse the loan immediately and make an exception to the FOIR policy.

Ans :

(B) Reject the loan application due to excessive obligations.
The Fixed Obligation to Income Ratio (FOIR) is a critical measure of repayment capacity. Since Mr. Kumar's proposed obligations (65%) exceed the bank's maximum permissible FOIR (50%), it indicates he would be over-leveraged. This poses a high risk of default. Therefore, the most prudent and likely action from the bank would be to reject the application.

Oct/Nov 2024

66. A bank is developing a new product for customers in the ₹50 lakh to ₹400 lakh annual income bracket. According to the Celent Research segmentation, which customer segment is the bank targeting?
(A) Super Affluent
(B) Mass Affluent
(C) HNW
(D) Super HNW

Ans :

(A) Super Affluent
The customer segmentation table provided by Celent Research classifies different income levels into specific segments. The income bracket of ₹50 lakh to ₹400 lakh per annum corresponds directly to the 'Super Affluent' customer segment. This group has distinct financial needs that differ from the Mass Affluent and HNW segments, requiring specialized products and services.

May/June 2017

67. Assertion (A): Banks should structure products and services to match the different stages in a customer's need spectrum.
Reason (R): Maslow's Hierarchy of Needs theory provides a framework for understanding the progression of customer needs.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) states a key strategic principle in retail banking. Reason (R) provides the theoretical underpinning for this strategy. Maslow's theory helps banks understand that customer needs evolve, from basic safety to self-actualization. This understanding allows banks to design and position products appropriately for each stage, making (R) the correct explanation for (A).

Oct/Nov 2005

68. A customer is looking for a product that offers long-term savings with a low premium and a high maturity amount for family security. This requirement primarily aligns with which level of need in Maslow's hierarchy?
(A) Physiological Needs
(B) Social Needs
(C) Esteem Needs

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(D) Security/Safety Needs

Ans :

(D) Security/Safety Needs
The customer's requirement is focused on long-term financial security and protection for their family. This directly corresponds to the Security/Safety level of Maslow's hierarchy. Products like endowment-based life insurance, which feature long tenors and maturity benefits, are specifically designed to fulfill this fundamental need for safety and stability against future uncertainties.

May/June 2020

69. Which of the following is an example of the 'Competence' component of the 'Assurance' dimension of service quality?
(A) The bank staff greeting a customer warmly with a smile.
(B) The bank's IT systems being secure from online fraud and data breaches.
(C) A loan officer possessing the required skills and knowledge to correctly advise on loan products.
(D) The bank branch being conveniently located and easy to contact via telephone.

Ans :

(C) A loan officer possessing the required skills and knowledge to correctly advise on loan products.
Competence, a key part of the Assurance dimension, refers to the possession of the necessary skills and knowledge by the service provider to perform the service effectively. A loan officer who is well-informed and can accurately explain complex product details demonstrates competence, which in turn builds the customer's trust and confidence in the bank's advice.

Oct/Nov 2015

70. A customer, Ms. Jane, applies for a personal loan. The bank officer tells her, "Your loan will be sanctioned within 2 days." Four days later, Ms. Jane has received no update. She feels the bank has failed on which dimension of service quality?
(A) Tangibles
(B) Reliability
(C) Empathy
(D) Responsiveness

Ans :

(B) Reliability
Reliability is defined as the ability to perform the promised service dependably and accurately. The officer made a specific promise of a 2-day sanction timeline. By failing to meet this commitment or even provide an update, the bank has broken its promise. This failure to deliver as promised is a clear lapse in the reliability dimension of service.

May/June 2013

71. According to the research study findings, which banking sector leads in customer satisfaction for Home Loans?
(A) Private Sector Banks exclusively
(B) Foreign Banks exclusively
(C) New Generation Private Sector Banks only
(D) Public Sector Banks and Foreign Banks

Ans :

(D) Public Sector Banks and Foreign Banks
The study's satisfaction index revealed different leaders for different products. While Private Sector Banks led in savings accounts and credit cards, the leadership in the home loan category was different. The findings indicated that Public Sector Banks lead in home loans, and Foreign Banks also perform strongly in both home loans and credit cards.

Oct/Nov 2021

72. A key suggestion for banks to enhance service quality is to reorient employees towards the customer experience. What is the recommended method to achieve this?
(A) Through proper training and implementing a feedback process
(B) Through stricter disciplinary actions and penalties for service failures
(C) By significantly increasing the annual sales targets for all employees
(D) By reducing the number of customer-facing employees to cut costs

Ans :

(A) Through proper training and implementing a feedback process
Improving the customer experience requires a cultural shift among employees. The suggested approach is constructive and developmental. It involves reorienting employees by providing them with proper training on service quality standards and customer interaction skills. This should be complemented by a feedback process

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to reinforce learning and drive continuous improvement in service delivery.

May/June 2024

73. Which of the following are the three overall measures on which customer satisfaction ratings were based in the research study?

I. Overall Satisfaction
II. Advocacy
III. Loyalty
IV. Profitability

(A) (I), (II), and (IV) only
(B) (II), (III), and (IV) only
(C) (I), (II), and (III) only
(D) (I), (III), and (IV) only

Ans :

(C) (I), (II), and (III) only

The research study measured customer satisfaction using three specific high-level parameters. These were Overall Satisfaction, which is a direct measure of happiness; Advocacy, which measures the customer's willingness to recommend the bank; and Loyalty, which indicates the customer's commitment to the bank. Profitability was not mentioned as a direct parameter in this context.

Oct/Nov 2008

74. Match the loan type with its typical repayment period.

List-I (Loan Type)
P. Personal Expense Loan
Q. Auto Loan
R. Housing Loan

List-II (Repayment Period)
1. 5 to 7 years
2. 5 to 30 years
3. 3 to 5 years

(A) P-3, Q-1, R-2
(B) P-1, Q-2, R-3
(C) P-2, Q-3, R-1
(D) P-3, Q-2, R-1

Ans :

(A) P-3, Q-1, R-2

Different retail loans have standard repayment tenures based on their purpose and value. Personal loans for expenses typically have shorter tenures of 3 to 5 years. Auto loans have a medium-term tenure of 5 to 7 years. Housing loans, being high-value and long-term assets, have the longest repayment periods, ranging from 5 to 30 years.

May/June 2006

75. Which statement is INCORRECT regarding the due diligence process for retail loans?

(A) Verification of the PAN number is typically done from the official IT website.
(B) A house visit is conducted to ensure the provided residential address is correct.
(C) Telephonic verification is done at the individual's office or business phone numbers.
(D) Title investigation of property is conducted by the applicant's own lawyer.

Ans :

(D) Title investigation of property is conducted by the applicant's own lawyer.

While a title investigation is a critical part of due diligence for property-related loans, it is conducted by a bank-appointed valuer or legal adviser. This is to ensure an unbiased and professional assessment of the property's title from the bank's perspective, protecting its interest as the lender, rather than relying on the applicant's own representation.

Oct/Nov 2017

76. Consider the following statements about retail banking:

1. The target customers are generally individuals or groups of individuals with regular income.
2. The assets financed, like houses and vehicles, typically generate direct income for the customer.

Which of the statements is/are correct?

(A) 1 only
(B) 2 only
(C) Both 1 and 2
(D) Neither 1 nor 2

Ans :

(A) 1 only

The first statement correctly defines the target audience for retail banking. The second statement is incorrect. A key characteristic of many retail assets, such as primary residences and personal vehicles, is that they are for personal consumption and do not generate any direct income for the customer. Repayment comes from other income sources.

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May/June 2008

77. A bank is reviewing its service quality for home loan customers. It finds that while the loan products are competitive, customers often complain they are unaware of their application status and are not informed about subsequent steps. Which general customer requirement is the bank failing to meet?

(A) Right product mix
(B) Good ambience
(C) Effective communication about products and services
(D) Right channel mix

Ans :

(C) Effective communication about products and services

The customers' complaints are centered on a lack of information and updates regarding their loan applications. This points to a failure in communication. One of the key requirements customers have is for effective communication from the bank about its products and, crucially, the processes associated with them. The bank needs a more proactive communication strategy.

Oct/Nov 2013

78. What is the primary focus of the 'Social Needs' level in Maslow's hierarchy when applied to banking products?

(A) Basic survival and a fundamental financial safety net
(B) Long-term financial security and proactive risk mitigation
(C) Personal achievement, public recognition, and status symbols
(D) A sense of belonging, family life, and social standing

Ans :

(D) A sense of belonging, family life, and social standing

Social Needs revolve around love, affection, and belongingness. In a financial context, this translates to products that enable or enhance family life and social participation. Loans for a family car (Car Loan), a family home (Home Loan), or consumer durables that improve lifestyle (Consumer Loans) are all tied to this need for social integration and well-being.

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May/June 2015

79. Which of the following is NOT a component of the 'Assurance' dimension of service quality?

(A) Communication - Keeping customers informed in a language they understand.
(B) Security - Freedom from financial risk and personal doubt.
(C) Credibility - Trustworthiness and believability about the service provider.
(D) Courtesy - Politeness and respect from customer-facing personnel.

Ans :

(A) Communication - Keeping customers informed in a language they understand.

The Assurance dimension comprises Competence, Courtesy, Credibility, and Security, all of which build customer confidence. While important, 'Communication' in the sense of keeping customers informed is listed as a separate element under the 'Empathy' dimension, which focuses on understanding the customer and providing individualized attention, including clear and understandable communication.

Oct/Nov 2012

80. Based on the paragraph, why do banks calculate FOIR?

(A) To determine the final interest rate based on the risk profile of the borrower.
(B) To prevent loan repayment from causing lifestyle difficulties for the borrower.
(C) To decide the specific percentage of margin money required for the asset purchase.
(D) To comply with a specific mandate outlined in the fair practices code for lenders.

Ans :

(B) To prevent loan repayment from causing lifestyle difficulties for the borrower.

The paragraph explicitly states the rationale behind calculating the Fixed Obligation to Income Ratio (FOIR). It mentions that this calculation is done "in order that the loan repayment does not result in any difficulty for lifestyle." This ensures that the borrower maintains sufficient disposable income after meeting all their fixed monthly obligations, including the new EMI.

May/June 2011

81. Which three of the following are part of the due diligence verification process for retail loans?

I. Verification of income documents like ITR

and salary slips.
II. Credit Report verification from Credit Information Companies.
III. Verification of the applicant's professional references.
IV. Telephonic verification at office/business phone numbers.
(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, and IV

Ans :

(D) I, II, and IV
The text lists specific steps for due diligence. These include verifying income documents (ITR, salary slips, bank statements), checking the applicant's credit history via a Credit Report from a CIC, and conducting telephonic verification at their place of work. Verification of professional references is not explicitly mentioned in the provided list of due diligence activities.

Oct/Nov 2020

82. The quantum of a housing loan is typically expressed as:
(A) 48 to 60 times the monthly income
(B) 12 times the monthly income
(C) 4 times the annual income
(D) 10 times the annual income

Ans :

(A) 48 to 60 times the monthly income
Due to their high value and long tenure, housing loans have the largest income multiple among retail loan products. The text indicates that the quantum for housing loans is typically calculated as 48 to 60 times the monthly income of the applicant, although this can vary from bank to bank and is subject to other factors.

May/June 2022

83. Identify the correct statement regarding customer segmentation.
(A) All customers within a single defined segment have completely identical needs.
(B) Segmentation is primarily based on the customer's age and gender only.
(C) Products can be developed for a single segment or a combination of elements from different segments.
(D) Niche products cannot be structured for a specific subgroup within a broader customer segment.

Ans :

(C) Products can be developed for a single segment or a combination of elements from different segments.
Customer segmentation provides a framework, but it is not rigid. One of the fundamental assumptions is that products can be designed to satisfy the needs of a specific group. This can be a broad segment or a niche within a segment, and products can even combine elements to appeal to customers across different classifications.

Oct/Nov 2023

84. A bank's effort to know its customers and their needs falls under which aspect of service quality?
(A) Reliability
(B) Responsiveness
(C) Tangibles
(D) Empathy

Ans :

(D) Empathy
Empathy is about providing caring, individualized attention. A key part of this is 'Understanding the customer,' which involves making a genuine effort to know who they are and what their specific needs are. This goes beyond a transactional relationship and demonstrates the bank's commitment to seeing things from the customer's point of view.

May/June 2016

85. A research study finds that a bank's customers are very happy with its home loan disbursement speed and problem resolution, but feel that the mobile app is outdated and there aren't enough self-service channels. The bank needs to improve based on which study suggestion?
(A) Improve transaction processing time at the branch.
(B) Pay special attention to the range of available product features.
(C) Relook at current channels and their ease of access/usage.
(D) Reorient employees on service quality through proper training.

Ans :

(C) Relook at current channels and their ease of access/usage.

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The customer feedback points to a specific weakness: a lack of adequate and modern service channels (outdated app, not enough self-service options). This directly aligns with the study's suggestion for banks to address the "lack of adequate channels" and to "relook at current channels and their ease of access/usage for the customer."

Oct/Nov 2009

86. Consider the following statements regarding the findings of the customer service study:

1. Almost 9 out of 10 Savings Account customers find excellent value in their bank's offering.
2. The value perception score for Credit Cards is significantly higher than for Savings Accounts.

Which of the statements is/are correct?

(A) 1 only
(B) 2 only
(C) Both 1 and 2
(D) Neither 1 nor 2

Ans :

(A) 1 only
Statement 1 is a direct finding from the study, indicating high perceived value for savings accounts. Statement 2 is incorrect. The study explicitly states that the value perception score is "significantly lower for Credit Cards" compared to savings accounts and home loans, likely due to factors like fees, interest charges, and perceived complexity.

May/June 2023

87. What is the ultimate goal of the due diligence process for a retail loan?

(A) To find a specific reason to reject the loan application and mitigate risk.
(B) To complete the required paperwork as quickly as possible to meet targets.
(C) To negotiate a higher interest rate with the applicant based on verified risk.
(D) To establish that the particulars furnished are authentic and the applicant qualifies.

Ans :

(D) To establish that the particulars furnished are authentic and the applicant qualifies.
The due diligence process is not adversarial; it is a risk mitigation exercise. Its fundamental purpose is to thoroughly verify all the information and documents provided by the applicant. The end goal is to confirm the authenticity of the applicant's identity and financial details, and to ensure they meet the bank's pre-defined eligibility criteria for the loan.

Oct/Nov 2018

88. The process of vetting security documents, title investigation, and valuation of property are all part of which broader step in the loan cycle?

(A) Due Diligence and Verification
(B) Initial application collection and data entry
(C) Post-disbursement monitoring and recovery
(D) Customer segmentation and product design

Ans :

(A) Due Diligence and Verification
These activities are core components of the comprehensive due diligence and verification stage that occurs after the initial application is received but before the final sanction and disbursement. They are all designed to verify the applicant's claims and assess the value and legality of the collateral being offered, thereby mitigating the bank's risk.

May/June 2007

89. What is the key principle that banks must follow regarding these various charges?

(A) The total of all charges should be kept as low as possible for the customer.
(B) The charges should be uniform for all types of retail loan products offered.
(C) The charges must be transparently mentioned and explained to the applicant.
(D) The charges can be decided and communicated after the loan is disbursed.

Ans :

(C) The charges must be transparently mentioned and explained to the applicant.
The source paragraph explicitly emphasizes the importance of transparency. While banks are permitted to levy various charges associated with processing a loan, the guiding principle is that all such charges must be clearly disclosed to the applicant upfront. They should be mentioned in the scheme details and explained, ensuring the customer is fully aware before sanction.

Oct/Nov 2025

90. The term 'Credibility' as a component of the Assurance dimension of service quality refers to:

(A) The trustworthiness and believability of the

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service provider.
(B) The bank's physical and digital ability to prevent data theft and fraud.
(C) The general friendliness and politeness exhibited by the bank's staff.
(D) The specific operational skill and professional knowledge of the employees.

Ans :

(A) The trustworthiness and believability of the service provider.
Credibility is about the reputation and character of the service provider. It involves being believable and trustworthy. A bank builds credibility through its brand image, its history of ethical behavior, and by being honest in its dealings. This makes customers feel confident that the bank has their best interests at heart, which is a key part of assurance.

May/June 2012

91. Which of the following is NOT a fundamental assumption about customers when developing retail banking products?
(A) Customers are different and have different expectations from their bank.
(B) Each customer will have a different set of needs for financial services.
(C) Customers can be grouped based on income, age, geography, and other factors.
(D) All customers progress through the need pyramid at the same speed.

Ans :

(D) All customers progress through the need pyramid at the same speed.
While Maslow's hierarchy provides a general model, the progression through it is highly individual. Customers move up the need ladder at different rates based on their life stage, income changes, and personal circumstances. Assuming a uniform speed of progression for all customers would be an incorrect and overly simplistic assumption for product development and marketing.

Oct/Nov 2014

92. A bank introduces a 'Home Décor Loan' for existing home loan customers who wish to upgrade their interiors. This product is most likely designed to appeal to which level of customer need?
(A) Physiological Needs
(B) Esteem Needs
(C) Safety Needs
(D) Social Needs

Ans :

(B) Esteem Needs
A Home Décor Loan is not for basic shelter (Physiological) or initial security (Safety). It is for enhancement and aesthetic improvement, which is often tied to a sense of achievement, status, and self-esteem. Such a loan allows customers to express their success and personal taste, aligning perfectly with the characteristics of Esteem Needs in Maslow's hierarchy.

May/June 2019

93. Which of the following 4 statements regarding the service quality study are correct?
i. The study covered about 20,000 customers across various branch types.
ii. The objective was to create Key Performance Indicators (KPI) on service quality.
iii. Satisfaction was measured only on the parameter of 'Overall Satisfaction'.
iv. The ratings showed poor overall performance by the industry, with satisfaction below 50%.
(A) (i) and (ii) only
(B) (i), (ii), and (iii) only
(C) (iii) and (iv) only
(D) (i) and (iv) only

Ans :

(A) (i) and (ii) only
Statements (i) and (ii) accurately reflect the scope and objective of the study mentioned. Statement (iii) is incorrect because satisfaction was measured on three parameters: Overall Satisfaction, Advocacy, and Loyalty. Statement (iv) is incorrect as the findings showed a "healthy overall performance," with satisfaction ratings above 80% for the product segments studied.

Oct/Nov 2006

94. A customer complains that the bank's communication materials are filled with jargon and are difficult to comprehend. This feedback relates to a failure in which aspect of 'Empathy'?
(A) Access
(B) Understanding the customer
(C) Courtesy
(D) Communication

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Ans :

(D) Communication

A component of the Empathy dimension is "Communication – Keeping customers informed in a language that they understand." The customer's complaint about jargon-filled materials indicates a failure to communicate in a clear, accessible manner. The bank is not considering the customer's perspective or level of financial literacy, thus failing on this specific aspect of empathy.

May/June 2021

95. Which of the following is an example of a bank providing 'solutions not excuses'?

(A) When a customer complains of a wrong fee, the bank investigates and suggests an alternative account type with no such fee.

(B) When a transaction fails, the cashier says, "The system is down, please come back tomorrow."

(C) When an ATM is out of cash, a notice is posted saying "Inconvenience is regretted."

(D) When a loan is delayed, the officer blames the back-office team for the delay.

Ans :

(A) When a customer complains of a wrong fee, the bank investigates and suggests an alternative account type with no such fee.

Providing solutions means taking proactive steps to resolve the customer's issue rather than just stating the problem or blaming something else. Suggesting an alternative account type is a constructive solution that not only addresses the immediate complaint but also helps the customer avoid the issue in the future, demonstrating a problem-solving mindset.

Oct/Nov 2010

96. Based on the source, the PSU bank's key differentiator for Home Loan customers was:

(A) Problem resolution

(B) Responsiveness and customer service

(C) Delivering on promise

(D) Low interest rates

Ans :

(B) Responsiveness and customer service

The provided text from the Customer Mind space (Image Map) analysis clearly distinguishes the bank's perceived strengths for different products. While "problem resolution & delivering on promise" were the differentiators for savings accounts, the text explicitly states that for home loans, the bank was differentiated on "responsiveness and customer service" among its customers.

May/June 2005

97. What is the correct chronological order for these steps in a retail loan process?

1. Disbursement of loan amount to the supplier.
2. Verification of KYC documents as per RBI norms.
3. Collection of application and necessary information.
4. Vetting of security documents by the bank's legal adviser.

(A) 3, 2, 4, 1

(B) 2, 3, 1, 4

(C) 3, 4, 2, 1

(D) 1, 2, 3, 4

Ans :

(A) 3, 2, 4, 1

The logical sequence of the loan process starts with collecting the application (3). This is followed by the primary step of KYC verification (2). Subsequently, detailed due diligence, including the legal vetting of security documents, is performed (4). Only after all approvals and formalities are complete does the final step of disbursement occur (1).

Oct/Nov 2022

98. Match the customer segment with its corresponding annual income level in Lakhs of Rupees.

List-I (Customer Segment)

P. Mass Affluent

Q. HNW

R. Ultra HNW

List-II (Income Level in ₹ Lakh p.a.)

1. 400 - 4,000
2. Above 120,000
3. 10 - 50

(A) P-1, Q-3, R-2

(B) P-3, Q-1, R-2

(C) P-2, Q-1, R-3

(D) P-3, Q-2, R-1

Ans :

(B) P-3, Q-1, R-2

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Based on the customer segmentation table provided in the chapter, the income levels for these specific segments are clearly defined. The Mass Affluent segment corresponds to an income of ₹10-50 lakh. The HNW (High Net Worth) segment corresponds to ₹400-4,000 lakh. The Ultra HNW segment represents the highest tier, with incomes above ₹120,000 lakh.

May/June 2018

99. Assertion (A): The due diligence process for retail loans is less important because they are volume-driven.
Reason (R): In view of the ease of delivery and sanction, unscrupulous customers can take advantage, necessitating careful due diligence.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(D) (A) is false but (R) is true.
Assertion (A) is false. The volume-driven nature of retail loans makes robust due diligence even more important, not less. Reason (R) is true and correctly explains why due diligence is critical. The standardized and quick processes can be exploited by fraudulent individuals, so banks must be extra careful in their verification to mitigate these risks.

Oct/Nov 2016

100. Which of the following statements about customer requirements from banks is incorrect?
(A) Customers expect a right product mix to satisfy different segment needs.
(B) A structured process time with adherence to prescriptions is a key requirement.
(C) An effective and time-bound grievance redressal mechanism is a general requirement.
(D) Customers prefer dealing with a single channel, either direct or e-channel, but not both.

Ans :

(D) Customers prefer dealing with a single channel, either direct or e-channel, but not both.
This statement is incorrect. A key customer requirement is the "Right channel mix," which implies the availability of both direct channels (branches) and e-channels (internet, mobile). Customers value the flexibility to choose the channel that is most convenient for a particular transaction or need, rather than being restricted to only one type of channel.

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CHAPTER 6
Product Development Process

Oct/Nov 2011

1. According to the introduction, which of the following are the three basic elements that characterize today's retail banking sector?
   (A) Technology, Regulation, and Customer Service
   (B) Multiple products, multiple channels of distribution, and multiple customer groups
   (C) Low-cost deposits, high-yield advances, and fee-based income
   (D) Urban branches, rural branches, and international offices

   Ans :

   (B) Multiple products, multiple channels of distribution, and multiple customer groups
   The retail banking sector is defined by its multifaceted nature, which includes offering a wide array of products like deposits and loans, utilizing various distribution channels such as branches and internet banking, and catering to diverse customer segments including consumers, small businesses, and corporates. These three elements form the foundation of modern retail banking strategy and operations.

May/June 2025

2. What is the process known as when banks group their customers into categories based on similar traits to better align marketing and sales efforts?
   (A) Customer segmentation or market segmentation
   (B) Customer Relationship Management (CRM)
   (C) Business Process Re-engineering (BPR)
   (D) Product Bundling Strategy (PBS)

   Ans :

   (A) Customer segmentation or market segmentation
   Banks employ customer or market segmentation to divide their broad customer base into distinct groups based on shared characteristics like age, income, or lifestyle. This strategic process allows banks to tailor their products, services, and communication more effectively, thereby enhancing marketing impact, sales conversion, and customer retention efforts for each specific segment.

Oct/Nov 2008

3. Market segmentation can be based on qualitative or quantitative data. Which of the following represents a qualitative basis for segmentation?
   (A) Separation by age and gender
   (B) Separation by income level
   (C) Separation by values and interests
   (D) Separation by geographical location

   Ans :

   (C) Separation by values and interests
   Qualitative segmentation involves grouping customers based on non-numerical characteristics such as psychographics, lifestyle, values, and interests. This approach provides deeper insights into customer motivations and preferences, contrasting with quantitative segmentation which relies on measurable data like age, income, or gender. Banks often merge both types for a comprehensive understanding of their customers.

May/June 2014

4. According to Theodre Levitt, a product is described as a complex cluster of what?
   (A) Tangible features and services
   (B) Marketing and branding efforts
   (C) Production and distribution costs
   (D) Value satisfactions

   Ans :

   (D) Value satisfactions
   Theodre Levitt's observation emphasizes that a product is more than just its physical or tangible attributes. He defines it as a complex cluster of value satisfactions. This means a customer assigns value to a product based on its perceived ability to solve their problems or fulfill their needs, with all other aspects being derivative of this core function.

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Oct/Nov 2021

5. What is the most accurate definition of a bank product?
(A) Any specific service offered by a bank to its customers for a predetermined fee
(B) A financial instrument designed and regulated by the central bank for use in the banking sector
(C) An offering that provides the satisfaction, use, and return desired by a customer
(D) A bundled offering that combines a deposit account with a corresponding loan facility

Ans :

(C) An offering that provides the satisfaction, use, and return desired by a customer
A bank product is broadly defined by its ability to meet customer needs. This customer-centric definition highlights that any offering, whether a service or a financial instrument, qualifies as a product if it can deliver the satisfaction, utility, and financial or non-financial return that a customer seeks, emphasizing the product's relevance from the customer's perspective.

May/June 2006

6. In the 'introduction' stage of the Product Life Cycle, what is the typical state of sales volume and revenue?
(A) Sales volume is high, and revenue covers all costs
(B) Sales volume is low, and revenue is insufficient to cover costs
(C) Sales volume is rapidly growing, and profits begin to emerge
(D) Sales volume peaks, and revenue is at its maximum

Ans :

(B) Sales volume is low, and revenue is insufficient to cover costs
The introduction stage is the initial phase when a new product is launched. During this period, customer awareness is minimal, leading to low sales volume. The revenue generated is typically not enough to cover the significant costs associated with production, marketing, and distribution, as it takes time for the product to gain traction in the market.

Oct/Nov 2019

7. Which stage of the Product Life Cycle is characterized by the sales volume picking up, the product likely breaking even, and starting to generate profits?
(A) Introduction
(B) Maturity
(C) Decline
(D) Growth

Ans :

(D) Growth
The growth stage follows a successful introduction. In this phase, consumer awareness increases, leading to a significant pickup in sales volume. As sales grow, the product is likely to reach its break-even point and begin generating profits for the organization. This stage signals growing market acceptance and is critical for the product's long-term success.

May/June 2010

8. During which stage of the Product Life Cycle do sales volume peak and a wide customer base results in the maximization of sales and profits?
(A) Maturity
(B) Introduction
(C) Growth
(D) Saturation

Ans :

(A) Maturity
The maturity stage represents the peak of a product's life cycle. In this phase, the product has achieved widespread market acceptance, resulting in a broad customer base. Sales volume reaches its maximum level, leading to the maximization of business inflow and profits. Banks aim to keep their products in this lucrative stage for as long as possible.

Oct/Nov 2015

9. The 'staleness' or 'saturation' stage of the Product Life Cycle is primarily caused by which factor?
(A) A significant decrease in the budget allocated for marketing and promotion
(B) A sharp and unforeseen increase in the costs of production and delivery
(C) Increased competition and the availability of superior alternative products
(D) A fundamental shift in the bank's overall corporate or strategic direction

Ans :

(C) Increased competition and the availability of superior alternative products

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The fourth stage, known as staleness or saturation, occurs when the market becomes crowded with similar offerings. Increased competition and the introduction of superior products by rivals lead to a slowdown in sales growth. Business and profits stagnate as customers become adverse to the product, which has lost its novelty and competitive edge.

May/June 2023

10. What is the final stage of the Product Life Cycle where the product becomes less attractive to consumers, leading to a drop in sales and profits?
(A) Decline
(B) Saturation
(C) Obsolescence
(D) Stagnation

Ans :

(A) Decline
The decline stage is the final phase of the product life cycle. During this period, the product loses its appeal to consumers for various reasons, including changing tastes or technological advancements. This results in a significant and sustained drop in both sales volume and profits, which can ultimately lead to the product's withdrawal from the market.

Oct/Nov 2005

11. What is the primary objective for banks concerning the Product Life Cycle of their offerings?
(A) To accelerate the product through the introduction and growth stages
(B) To quickly phase out products once they enter the decline stage
(C) To focus only on introducing new products and ignore the life cycle
(D) To keep the product in the maturity stage as long as possible

Ans :

(D) To keep the product in the maturity stage as long as possible
The main goal for banks in managing the product life cycle is to extend the maturity stage for as long as possible. This is the most profitable phase, characterized by high sales volume and a stable customer base. By continuously maximizing business and profit during this period, banks can ensure a steady stream of revenue from the product.

May/June 2018

12. A product experiencing a very short life cycle with a high degree of product obsolescence is most characteristic of which industry?
(A) Retail banking products
(B) Computer products
(C) Agricultural products
(D) Real estate

Ans :

(B) Computer products
The computer products industry is characterized by rapid technological advancements. This fast pace of change leads to a high degree of product obsolescence, where existing products quickly become outdated. Consequently, the product life cycle for computer-related items is typically very short, moving from introduction to decline much faster than products in more stable industries.

Oct/Nov 2013

13. In the context of banking, what are 'core products'?
(A) Products that have reached the maturity stage of their life cycle and generate peak profits
(B) Products that heavily rely on a strong marketing orientation and content to achieve success
(C) Fundamental products, such as basic deposit accounts, that define the bank's primary business activities
(D) Custom products developed by bundling or combining two or more existing product offerings

Ans :

(C) Fundamental products, such as basic deposit accounts, that define the bank's primary business activities
Core products are the fundamental offerings that define a bank's primary business activities. These are essential products like Savings Bank Accounts, Current Accounts, and Term Deposits that are indispensable to various customer segments. They form the bedrock of the bank's operations and typically have a stable life in the growth stage without needing aggressive marketing content.

May/June 2009

14. Which of the following are all examples of core products in banking?

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(A) Internet Banking, Mobile Banking, and Group Health Insurance
(B) ATM/Debit Card, Cheque Book, and Credit Card
(C) Portfolio Management Services, Mutual Funds, and Insurance
(D) Savings Bank, Current Account, and Term Deposit

Ans :

(D) Savings Bank, Current Account, and Term Deposit
Core products are the essential, foundational offerings of a bank. Savings Bank accounts, Current Accounts, and various Term Deposits (like Fixed and Recurring Deposits) fall into this category. They represent the fundamental business of accepting deposits and are considered indispensable for the majority of a bank's customers, forming the core of the liability portfolio.

Oct/Nov 2024

15. What is an 'augmented product' in the banking scenario?
(A) A formal product enhanced with added value, benefits, and customer comforts
(B) A standard core product that has been given a new, distinct brand name for marketing purposes
(C) Any product that has successfully reached the maturity stage of its established life cycle
(D) A basic, unbranded, and undifferentiated product offering, such as a simple deposit account

Ans :

(A) A formal product enhanced with added value, benefits, and customer comforts
An augmented product is created by enhancing a formal or core product. This is achieved by combining core offerings or by adding extra features that provide additional benefits, comfort, and value to the customer. These augmentations go beyond the basic expectation and serve to differentiate the product from competitors' offerings in the marketplace.

May/June 2012

16. In the present-day scenario, which of the following would be considered an augmentation to a core Savings Bank account?
(A) A cheque book and an ATM/Debit Card
(B) Internet Banking and a tagged group health insurance product
(C) A passbook for tracking transactions
(D) The ability to deposit cash at the branch counter

Ans :

(B) Internet Banking and a tagged group health insurance product
While ATM/Debit cards and cheque books are now considered part of the core savings product, augmentations are value-added services that go beyond the basic offering. In the current context, providing facilities like Internet Banking, Mobile Banking, and tagging a group health or life insurance product to the account are prime examples of product augmentation.

Oct/Nov 2006

17. What is the initiative of a bank to create recall for its specific products by giving them unique names and features known as?
(A) Corporate Social Responsibility
(B) Branding
(C) Product Diversification
(D) Market Segmentation

Ans :

(B) Branding
Branding is the strategic initiative undertaken by banks to make customers identify the bank with a particular product name. By giving products distinct names and associating them with specific features, banks aim to create strong product recall. This helps in developing definite business through that product and differentiating it in a competitive market.

May/June 2021

18. Which of the following statements about product branding is correct?
Statement 1: For core products, a significant marketing orientation is essential for success.
Statement 2: For augmented products to succeed, a concerted effort from the marketing angle is required.
(A) Only Statement 1 is correct.
(B) Only Statement 2 is correct.
(C) Both Statement 1 and Statement 2 are correct.
(D) Neither Statement 1 nor Statement 2 is correct.

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Ans :

(B) Only Statement 2 is correct.
Core products are fundamental and often sell based on necessity, thus they do not require a heavy marketing orientation. However, augmented products, which offer additional features and benefits beyond the core, need a concerted marketing effort to succeed. Their value addition must be effectively communicated to customers to drive adoption and achieve differentiation.

Oct/Nov 2017

19. Bank products can be broadly classified into three categories. Which of the following is the correct classification?
(A) Personal, Corporate, and Government Products
(B) Low Risk, Medium Risk, and High Risk Products
(C) Deposit Products, Asset Products, and Other Products and Services
(D) Core Products, Augmented Products, and Potential Products

Ans :

(C) Deposit Products, Asset Products, and Other Products and Services
Bank products are typically categorized into three main groups based on their function. These are Deposit or Liability Products (like Savings and Term Deposits), Asset or Retail Credit Products (like Loans), and Other Products and Services (which includes remittances, fee-based services, and non-fund-based business). This classification provides a clear framework for understanding a bank's offerings.

May/June 2015

20. Deposit products can be primarily classified into which three categories?
(A) Retail Deposits, Corporate Deposits, and NRI Deposits
(B) Demand Deposits, Time Deposits, and Hybrid Deposits
(C) Core Deposits, Augmented Deposits, and Combination Deposits
(D) Savings Deposits, Current Deposits, and Term Deposits

Ans :

(D) Savings Deposits, Current Deposits, and Term Deposits
In the deposit products category, the primary classification is based on the nature and tenure of the deposit. The three main types are Savings Deposits, which are for encouraging savings; Current Deposits, which are for business transactions; and Term Deposits, which are held for a fixed period. Combination deposit products are also offered by banks.

Oct/Nov 2022

21. Demand Deposits, also known as CASA Deposits, are a combination of which two types of accounts?
(A) Savings Accounts and Term Deposits
(B) Recurring Deposits and Fixed Deposits
(C) Current Accounts and Savings Accounts
(D) Term Deposits and Current Accounts

Ans :

(C) Current Accounts and Savings Accounts
CASA is an acronym that stands for Current Account and Savings Account. These two types of accounts are collectively referred to as CASA Deposits or Demand Deposits. They are a crucial source of low-cost funds for banks, as interest paid on them is typically lower than on term deposits, thereby improving the bank's net interest margin.

May/June 2007

22. As per the provided diagram on Demand Deposits, what constitutes a 'Basic Savings Account'?
(A) An account with only a Cheque Book
(B) An account with a Cheque Book and Debit Card
(C) An account with Internet and Mobile Banking only
(D) An account with a tagged insurance cover

Ans :

(B) An account with a Cheque Book and Debit Card
The diagram illustrating the composition of Savings Accounts (SA) under Demand Deposits shows the evolution of the product. A 'Basic Savings Account' is depicted as an account that includes a Cheque Book and a Debit Card as its fundamental features, forming the core offering before any further value additions or augmentations are considered.

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Oct/Nov 2014

23. According to the diagram on Demand Deposits, which of the following is considered a value addition for an 'Augmented Current Account'?
(A) A basic cheque book facility
(B) The ability to deposit cash
(C) A monthly account statement
(D) Tagged insurance cover (life and non-life)

Ans :

(D) Tagged insurance cover (life and non-life)
The diagram for 'Augmented Current Accounts' shows that value is added to the 'Basic Current Account with Cheque Book'. These value additions include features like a tagged insurance cover for life and non-life risks, and other concessions such as free remittance facilities. These features augment the core product to make it more attractive.

May/June 2019

24. Which category of term deposits allows a depositor to build up a corpus on a monthly basis and earn a term deposit interest rate?
(A) Recurring Deposits
(B) Fixed Deposits
(C) Combination Term Deposits
(D) Flexi Deposits

Ans :

(A) Recurring Deposits
Recurring Deposits are a type of term deposit where a customer deposits a fixed amount every month for a pre-determined period. This product is designed to encourage regular savings and allows the depositor to earn interest at rates applicable to term deposits for the chosen tenure, with the principal and accrued interest paid at maturity.

Oct/Nov 2010

25. As per the diagram on Term Deposits, a 'Combination Term Deposit' is structured as a combination of which two products?
(A) Savings Account and Fixed Deposit
(B) Current Account and Recurring Deposit
(C) Recurring Deposits and Fixed Deposits
(D) Two different types of Fixed Deposits

Ans :

(C) Recurring Deposits and Fixed Deposits
The diagram illustrating Term Deposit Products clearly shows that a 'Combination Term Deposit' is a structured product that combines features of both Recurring Deposits (RD) and Fixed Deposits (FD). In such a scheme, the first part is typically in the form of an RD, and the second part is a type of fixed deposit.

May/June 2016

26. In the context of savings bank accounts, what is the legal relationship between the bank and the depositor?
(A) Debtor and Creditor
(B) Trustee and Beneficiary
(C) Agent and Principal
(D) Bailor and Bailee

Ans :

(A) Debtor and Creditor
When a customer deposits money into a savings bank account, the bank becomes the debtor, as it owes that money to the customer. The depositor, in turn, becomes the creditor. This debtor-creditor relationship is the fundamental legal basis for deposit accounts, where the bank is obligated to repay the deposited amount on demand or as per agreed terms.

Oct/Nov 2020

27. What is the primary purpose for which a Savings Bank deposit account is designed?
(A) To facilitate a large number of business transactions
(B) To provide overdraft facilities to individuals
(C) To serve as collateral for high-value loans
(D) To develop the habit of saving among the public

Ans :

(D) To develop the habit of saving among the public
The fundamental objective of a Savings Bank deposit account is to encourage and cultivate the habit of saving among the general public, particularly among salary earners and those with fixed incomes. While it offers liquidity and other benefits, its core design philosophy is rooted in promoting thrift and providing a safe avenue for individuals to accumulate their savings.

May/June 2011

28. Many banks offer a facility in SB accounts with minimum balance requirements that facilitates payment of interest rates applicable to term deposits. What is this facility called?

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(A) Overdraft facility
(B) Sweep-in and sweep-out facility
(C) Core Banking Solution
(D) Electronic fund transfer facility

Ans :

(B) Sweep-in and sweep-out facility
The sweep-in and sweep-out facility is an automated feature linked to a savings account. When the balance in the savings account exceeds a certain threshold, the excess amount is automatically transferred (swept-out) into a fixed deposit to earn a higher interest rate. If the savings account balance falls short, funds are swept-in from the fixed deposit.

Oct/Nov 2025

29. Which account was replaced by the 'Basic Savings Bank Deposit Account' (BSBDA) as per RBI guidelines?
(A) "General purpose" Savings bank account
(B) "Student" Savings bank account
(C) "No frill" Savings bank account
(D) "Zero balance" Current account

Ans :

(C) "No frill" Savings bank account
The Reserve Bank of India (RBI) issued guidelines on August 10, 2012, to replace the existing "No frill" savings bank accounts with the 'Basic Savings Bank Deposit Account' (BSBDA). This move was part of the financial inclusion drive to ensure that more individuals have access to basic banking services with standardized features across all banks.

May/June 2024

30. What is the maximum number of withdrawals allowed in a month from a 'Basic Savings Bank Deposit Account' (BSBDA), including ATM withdrawals?
(A) Two
(B) Six
(C) There is no limit
(D) Four

Ans :

(D) Four
A key feature of the Basic Savings Bank Deposit Account (BSBDA) is the restriction on the number of withdrawals. An account holder is permitted a maximum of four withdrawals in a month. This limit includes all types of withdrawals, such as those made at the bank branch, through ATMs, or via other electronic means.

Oct/Nov 2016

31. A customer holds an existing savings bank deposit account in a bank. If this customer opens a 'Basic Savings Bank Deposit Account' (BSBDA) in the same bank, what must they do?
(A) Close the existing savings bank account within 30 days
(B) Agree to maintain a specified minimum balance in both accounts
(C) Formally link the two accounts to enable an automatic sweep facility
(D) Request to convert the existing savings account to a term deposit account

Ans :

(A) Close the existing savings bank account within 30 days
As per regulatory guidelines, a holder of a 'Basic Savings Bank Deposit Account' (BSBDA) is not eligible to open or maintain any other savings bank deposit account in the same bank. If a customer with an existing savings account opens a BSBDA, they are required to close the pre-existing account within 30 days.

May/June 2017

32. Mr. Kumar, a low-risk individual without any Officially Valid Documents (OVD), opens a 'Small Account' on the basis of a self-attested photograph. In a particular month, his total withdrawals and transfers amount to ₹12,000. Is this transaction permissible under the conditions for Small Accounts?
(A) Yes, because the monthly credit limit has not been exceeded.
(B) No, because the aggregate of all withdrawals and transfers in a month cannot exceed ₹10,000.
(C) Yes, because the account balance is below the maximum permissible limit of ₹50,000.
(D) No, because foreign remittances cannot be credited to a Small Account.

Ans :

(B) No, because the aggregate of all withdrawals and transfers in a month cannot exceed ₹10,000.
One of the specific conditions governing 'Small Accounts' is a limit on monthly transactions. The aggregate of all withdrawals and transfers from the account within a single month must not

NODIA

exceed ₹10,000. Therefore, a transaction resulting in a total monthly withdrawal of ₹12,000 would violate the stipulated conditions for operating such an account.

Oct/Nov 2009

33. What is the maximum aggregate of all credits permissible in a financial year for a 'Small Account'?
(A) ₹50,000
(B) ₹1,00,000
(C) ₹2,00,000
(D) ₹10,000

Ans :

(B) ₹1,00,000
A 'Small Account' is subject to several transactional and balance limits to mitigate risks associated with simplified KYC norms. One of these key conditions is that the aggregate of all credits into the account during a single financial year cannot exceed one lakh rupees (₹1,00,000). This helps control the volume of funds flowing through such accounts.

May/June 2020

34. A 'Small Account' is initially valid for a period of 12 months. By how much longer can this period be extended if the person provides proof of having applied for an Officially Valid Document (OVD)?
(A) 12 months
(B) 6 months
(C) 18 months
(D) 24 months

Ans :

(A) 12 months
The validity of a 'Small Account' is limited. It is initially valid for 12 months. However, this period can be extended for an additional 12 months if the account holder furnishes proof that they have applied for an OVD. This provides a total operational timeframe of up to 24 months to complete the full KYC process.

Oct/Nov 2007

35. What happens if proper KYC documents are not submitted for a 'Small Account' within the total time frame of 24 months?
(A) The account is automatically converted to a BSBDA.
(B) Higher service charges are levied on the account.
(C) All transactions in the account are blocked.
(D) The account is closed, and the balance is forfeited.

Ans :

(C) All transactions in the account are blocked.
To ensure compliance with KYC regulations, there is a strict timeline for regularizing a 'Small Account'. If the account holder fails to submit the required proper KYC documents (OVDs) within the maximum permitted period of 24 months, the bank is required to block all further transactions in the account until full KYC compliance is achieved.

May/June 2013

36. With effect from which date did the RBI deregulate the interest rate to be paid by banks on domestic Savings Bank Deposits?
(A) April 1, 2010
(B) August 10, 2012
(C) January 1, 2017
(D) October 25, 2011

Ans :

(D) October 25, 2011
The Reserve Bank of India took a significant step towards liberalizing interest rates by deregulating the interest rate on domestic Savings Bank Deposits. This change, which granted banks the autonomy to determine their own SB interest rates subject to certain conditions, was made effective from October 25, 2011, as per circular No.DBOD.Dir.BC.42/13.03.00/ 2011-12.

Oct/Nov 2012

37. According to RBI's deregulation guidelines, what interest rate must a bank offer on savings bank deposits up to ₹1 Lakh?
(A) A differential interest rate based on the customer's individual risk profile and history
(B) An interest rate that is individually negotiated between the bank and each depositor
(C) A uniform interest rate, regardless of the deposit amount within this slab
(D) The exact same interest rate as that offered on term deposits of a similar amount and tenure

Ans :

(C) A uniform interest rate, regardless of the deposit amount within this slab

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A key condition of the savings bank interest rate deregulation is that each bank must offer a single, uniform interest rate on deposits with an end-of-day balance up to ₹1 Lakh. This ensures that all small-balance depositors are treated equally and prevents discrimination within this slab, promoting fairness and transparency for all such customers.

May/June 2022

38. Under what condition can a bank provide differential rates of interest for end-of-day savings bank balances exceeding one lakh rupees?
(A) Only if the customer is officially classified as a high-net-worth individual (HNI)
(B) If the bank does not discriminate between deposits of similar amounts accepted on the same day
(C) Only if the proposed differential rates are pre-approved by the Indian Banks' Association
(D) Only if the customer formally agrees to a longer lock-in period for the funds in writing

Ans :

(B) If the bank does not discriminate between deposits of similar amounts accepted on the same day
While banks are allowed to offer different interest rates for balances above ₹1 Lakh, this flexibility is subject to a non-discrimination clause. The bank must ensure that it does not discriminate in the interest paid between one deposit and another of a similar amount, accepted on the same date, at any of its offices.

Oct/Nov 2023

39. With effect from April 1, 2010, scheduled commercial banks were advised to calculate interest on savings bank accounts on what basis?
(A) On the minimum balance in the account from the 10th to the last day of the month
(B) On a quarterly product basis
(C) On the average monthly balance
(D) On a daily product basis

Ans :

(D) On a daily product basis
To ensure a fairer method of interest calculation for depositors, the RBI mandated a change in the calculation methodology. Effective from April 1, 2010, scheduled commercial banks were instructed to calculate interest on savings bank accounts based on the end-of-day balance in the account daily, a method referred to as the 'daily product basis'.

May/June 2008

40. Which type of deposit account is particularly suited for the requirements of businesses, trading entities, and public corporations with numerous daily transactions?
(A) Current Account
(B) Term Deposit Account
(C) Recurring Deposit Account
(D) Savings Account

Ans :

(A) Current Account
A Current Account is a form of demand deposit designed to meet the needs of entities with a high frequency of banking transactions, such as businesses, traders, and corporations. It allows for any number of withdrawals and deposits, making it ideal for managing daily operational cash flows without the restrictions typically found in savings accounts.

Oct/Nov 2018

41. A bank with a Current Account and Savings Account (CASA) deposit ratio above what threshold is generally considered to be in a better position to perform?
(A) 15%
(B) 25%
(C) 35%
(D) 50%

Ans :

(C) 35%
The CASA ratio is a key performance indicator for banks. A higher ratio indicates a larger portion of funds is from low-cost current and savings accounts. A bank with a CASA ratio above 35% (or one-third) is considered to be in a strong position, as it has a lower overall cost of funds, which improves its Net Interest Margin (NIM).

May/June 2005

42. What is the term for a time deposit that is not withdrawn on its maturity date?
(A) An overdue deposit
(B) A lapsed deposit
(C) A renewed deposit
(D) A restructured deposit

Ans :

NODIA

(A) An overdue deposit

An "Overdue Deposit" is a term deposit that has reached its maturity date but has not been withdrawn by the depositor. It also includes notice money that is not withdrawn after the expiry of the notice period. An overdue deposit is treated as a demand deposit, as the funds are payable on demand by the customer.

Oct/Nov 2012

43. Which type of deposit scheme is offered by banks under names like Flexi Deposit Account or Quantum Deposit, allowing withdrawal of parts of the deposit in multiples?

(A) Recurring deposit schemes
(B) Standard fixed deposit schemes
(C) Floating rate deposit schemes
(D) Combination deposit schemes

Ans :

(D) Combination deposit schemes

Combination deposit schemes, marketed under various names like Flexi Deposit or Quantum Deposit, offer customers enhanced liquidity. These products treat a deposit as units (e.g., multiples of ₹1000) and allow customers to withdraw a part of the deposit in these units while the remaining amount continues to earn the original high rate of interest.

May/June 2016

44. If a Term Deposit matures and the proceeds remain unpaid and unclaimed with the bank, what rate of interest will the amount attract?

(A) The original contracted rate of interest
(B) The rate of interest as applicable to savings deposits
(C) No interest will be paid on the amount
(D) A penalty rate determined by the bank

Ans :

(B) The rate of interest as applicable to savings deposits

When a term deposit matures and the depositor does not withdraw or renew it, the unclaimed amount does not continue to earn the high fixed deposit rate. Instead, the proceeds left with the bank are treated as overdue and will attract the rate of interest that is currently applicable to the bank's standard savings deposit accounts.

Oct/Nov 2009

45. The interest rate on a Floating Rate Domestic Term Deposit offered by a bank must be linked to what?

(A) The bank's own internal cost of funds, as calculated by its treasury department
(B) The official Consumer Price Index (CPI) inflation rate published by the government
(C) A directly observable and transparent market-determined external benchmark
(D) The prevailing interest rate on government securities that have a similar maturity profile

Ans :

(C) A directly observable and transparent market-determined external benchmark

To ensure transparency and fairness in pricing, regulatory guidelines mandate that the interest rate on floating rate term deposits must be linked to an external benchmark. This benchmark must be directly observable in the market and transparent, allowing customers to understand how and why their interest rate changes over time, independent of the bank's internal decisions.

May/June 2023

46. Which of the following are the four key elements of a Know Your Customer (KYC) policy as required by regulations?

(A) Customer Acquisition Strategy, Service Delivery Standards, Complaint Resolution, and Feedback Systems
(B) Product Design Principles, Strategic Pricing, Comprehensive Marketing Plan, and Sales Execution
(C) Mandatory Employee Training, System and Data Security, Internal Branch Audits, and Regulatory Reporting
(D) Customer Acceptance Policy, Risk Management, Customer Identification Procedures (CIP), and Monitoring of Transactions

Ans :

(D) Customer Acceptance Policy, Risk Management, Customer Identification Procedures (CIP), and Monitoring of Transactions

A comprehensive KYC policy is built on four essential pillars. These are: the Customer Acceptance Policy, which defines the type of customers the bank will accept; Risk Management, for assessing and categorizing customer risk;

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Customer Identification Procedures (CIP), for verifying identity; and ongoing Monitoring of Transactions to detect suspicious activity. These elements work together to prevent financial crime.

Oct/Nov 2018

47. Under KYC/AML guidelines, banks must categorize their customers into risk categories for management purposes. What are these three categories?
(A) Low, Medium, and High risk
(B) Retail, Corporate, and Institutional
(C) Domestic, NRI, and Foreign National
(D) Active, Dormant, and Inoperative

Ans :

(A) Low, Medium, and High risk
As part of their risk management framework under KYC/AML regulations, banks are required to implement a risk-based approach. This involves assessing the risk perception of each customer based on parameters like identity, financial status, and nature of business, and then categorizing them as low, medium, or high risk to determine the level of due diligence required.

May/June 2007

48. Assertion (A): Banks shall not seek 'Introduction' while opening accounts.
Reason (R): The Customer Due Diligence (CDD) procedure, based on officially valid documents, is sufficient for establishing the identity and address of the customer.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Modern KYC regulations prohibit banks from insisting on an 'introduction' from an existing customer to open a new account. The reason for this is that the robust Customer Due Diligence (CDD) process, which involves verifying officially valid documents for identity and address, is now considered the primary and sufficient method for customer identification.

Oct/Nov 2025

49. Which of the following documents is NOT listed as an 'Officially Valid Document' (OVD) for KYC purposes?
(A) Passport containing a valid date, photograph, and address details
(B) PAN Card, a document used for income tax purposes but lacking an address
(C) Driving license featuring a photograph and the holder's current address
(D) NREGA job card duly signed by an officer of the State Government

Ans :

(B) PAN Card, a document used for income tax purposes but lacking an address
While a PAN card is a crucial document for financial transactions and is often required for opening an account, it is primarily an identity proof and does not contain an address. The list of six Officially Valid Documents (OVDs) includes those that serve as both proof of identity and proof of address, such as a passport or Aadhaar letter.

May/June 2012

50. If an OVD furnished by a customer does not have the updated address, a utility bill can be accepted as proof of address for a limited purpose. What is the maximum age of such a utility bill?
(A) Not more than 2 months old
(B) Not more than 1 month old
(C) Not more than 3 months old
(D) Not more than 6 months old

Ans :

(A) Not more than 2 months old
In situations where a customer's OVD does not contain their current address, banks are permitted to accept other documents for the limited purpose of address verification. A utility bill for services like electricity, telephone, or piped gas is one such document, but it must not be more than two months old at the time of submission.

Oct/Nov 2014

51. As per Rule 114B of the Income-tax Rules, quoting a Permanent Account Number (PAN) is required for cash deposits with a bank exceeding what amount in a single transaction?
(A) ₹10,000
(B) ₹25,000
(C) ₹50,000

NODIA

(D) ₹1,00,000

Ans :

(C) ₹50,000
Rule 114B of the Income-tax Rules specifies several transactions where quoting PAN is mandatory. One such transaction is a cash deposit with a banking company that exceeds fifty thousand rupees (₹50,000). This rule is in place to help track large cash transactions and curb the flow of unaccounted money within the financial system.

May/June 2019

52. What is the Video-based Customer Identification Process (V-CIP)?
(A) A process for recording customer service complaints through a video interface
(B) A marketing tool to remotely demonstrate new products to potential customers
(C) An internal training module on KYC procedures delivered via video to staff
(D) An alternate method of customer identification treated on par with face-to-face CIP

Ans :

(D) An alternate method of customer identification treated on par with face-to-face CIP
The V-CIP is a remote, digital alternative to the traditional in-person customer identification process. It involves a seamless, secure, and live audio-visual interaction between a bank official and the customer to obtain identification information and verify its authenticity. When conducted as per prescribed standards, it is considered equivalent to a face-to-face CIP.

Oct/Nov 2006

53. In a partially centralized model for opening deposit accounts, which activities are typically performed at the branch level?
(A) End-to-end account opening and issuance of all deliverables
(B) Only scanning and forwarding of documents to the central unit
(C) Account opening and issue of Pass Book
(D) Only issuance of Cheque Book and Debit Card

Ans :

(C) Account opening and issue of Pass Book
In a partially centralized model, the workflow is split between the branch and a central processing center. Typically, customer-facing activities that require immediate delivery are handled at the branch. This includes the core process of opening the account and issuing the Pass Book, while items like Cheque Books and Debit Cards are often processed centrally.

May/June 2021

54. Which government-authorized entity acts as the Central KYC Records Registry (CKYCR)?
(A) Reserve Bank of India (RBI)
(B) Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI)
(C) Unique Identification Authority of India (UIDAI)
(D) Securities and Exchange Board of India (SEBI)

Ans :

(B) Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI)
The Government of India has authorized CERSAI to perform the functions of the Central KYC Records Registry (CKYCR). This central repository stores the KYC records of customers in the financial sector, allowing for inter-usability of KYC data across different financial institutions, thereby streamlining the customer onboarding process and reducing redundant efforts.

Oct/Nov 2010

55. Scheduled Commercial Banks (SCBs) are required to invariably upload the KYC data pertaining to all new individual accounts opened on or after which date with CKYCR?
(A) October 25, 2011
(B) August 10, 2012
(C) April 1, 2010
(D) January 1, 2017

Ans :

(D) January 1, 2017
To operationalize the CKYCR, a specific cut-off date was established. As per the provisions of the Prevention of Money Laundering (Maintenance of Records) Rules, 2005, Scheduled Commercial Banks were mandated to upload the KYC data for all new individual accounts opened on or after January 1, 2017, to the CERSAI portal.

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May/June 2005

56. Match the KYC risk category in List-I with its corresponding periodic updation frequency in List-II.

List-I (Risk Category)

P. High Risk Customer

Q. Medium Risk Customer

R. Low Risk Customer

List-II (Updation Frequency)

1. Once in every ten years
2. Once in every two years
3. Once in every eight years

(A) P-2, Q-3, R-1

(B) P-1, Q-2, R-3

(C) P-3, Q-1, R-2

(D) P-2, Q-1, R-3

Ans :

(A) P-2, Q-3, R-1

KYC guidelines prescribe a risk-based approach for the periodic updation of customer information. The frequency is highest for high-risk customers, requiring updation at least once every two years. For medium-risk customers, the frequency is once every eight years, and for low-risk customers, it is the least frequent, at once every ten years.

Oct/Nov 2022

57. For low-risk customers, under what condition can fresh proofs of identity and address be waived at the time of periodic updation?

(A) If the customer provides a new, recently taken photograph for the bank's records

(B) If the customer makes a mandatory personal visit to the branch for verification

(C) If there is no change in status and the customer provides a self-certification to that effect

(D) If the account has remained consistently operative with regular, typical transactions

Ans :

(C) If there is no change in status and the customer provides a self-certification to that effect

To simplify the periodic updation process for low-risk customers, banks are not required to obtain fresh proof of identity and address if the customer's status has not changed. The bank only needs to obtain a self-certification from the customer confirming that their identity and address details remain the same as previously recorded.

May/June 2018

58. When must a bank obtain a fresh photograph from a customer as part of the KYC process?

(A) When the account was opened when the customer was a minor, upon their becoming a major

(B) During every periodic KYC updation, regardless of the customer's risk category

(C) Only in cases where the customer's physical appearance has significantly changed

(D) If the previous photograph on record with the bank is more than five years old

Ans :

(A) When the account was opened when the customer was a minor, upon their becoming a major

KYC guidelines specify a particular situation where obtaining a fresh photograph is mandatory. When an account is opened for a minor, the bank must obtain a new photograph from the customer once they attain the age of majority. This ensures that the bank's records have an updated and accurate photograph of the adult account holder.

Oct/Nov 2016

59. Which of the following is considered a traditional credit product offered by banks to business people?

(A) Home Loans

(B) Personal Loans

(C) Credit Card Receivables

(D) Cash Credit accounts

Ans :

(D) Cash Credit accounts

Traditional credit products are typically aimed at businesses to meet their working capital and other specific needs. Cash credit accounts, which allow businesses to operate freely within a fixed credit limit, are a classic example of such a traditional credit scheme, distinct from modern, market-oriented retail credit schemes like home or personal loans.

May/June 2014

60. The development of niche credit schemes, such as loans for professionals, is based on two dimensions. What is the first dimension?

(A) The profitability of the proposed product

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(B) Looking at the customer segment and its needs
(C) The technological feasibility of the product
(D) The existing product portfolio of the bank

Ans :

(B) Looking at the customer segment and its needs
The primary premise for developing a niche credit product is customer-centric. The first dimension involves identifying a specific customer segment, assessing if it has a genuine need for a new product, and determining if the size of that segment is large enough to warrant product development. Customer need satisfaction is the initial objective.

Oct/Nov 2007

61. Which of the following services falls under the category of 'non-fund based business' for a bank?
(A) Term Loans
(B) Overdraft facility
(C) Letter of Credit
(D) Cash Credit

Ans :

(C) Letter of Credit
Non-fund based business refers to services where the bank does not immediately disburse its own funds but provides a commitment or guarantee on behalf of a customer. A Letter of Credit is a prime example, as it is an undertaking to pay a beneficiary upon fulfillment of certain conditions, with the bank's funds only being used if the customer defaults.

May/June 2025

62. Which of the following statements regarding 'Other Products and Services' is incorrect?
(A) Remittance services include NEFT and RTGS.
(B) Safe Deposit Lockers are a type of fee-based service.
(C) Portfolio Management Services can be offered to Non-Resident Indian clients.
(D) Bank Guarantees are a form of fund-based business.

Ans :

(D) Bank Guarantees are a form of fund-based business.
Bank Guarantees are a classic example of non-fund based business, not fund-based. The bank provides a guarantee on behalf of its customer to a third party, and its own funds are only outlaid if the customer fails to fulfill their obligation, causing the guarantee to be invoked. The other statements are correct descriptions of services offered.

Oct/Nov 2019

63. What is the undertaking by a bank to pay the drawer of a bill on the due date, even if the buyer/importer fails to make the payment, known as?
(A) Co-acceptance of bills
(B) Bank Guarantee
(C) Letter of Credit
(D) Bill Discounting

Ans :

(A) Co-acceptance of bills
Co-acceptance of bills is a specific non-fund based facility where a bank adds its signature (acceptance) to a bill of exchange drawn on its customer (the buyer/importer). This act signifies the bank's undertaking to make the payment to the seller/exporter on the due date if the buyer defaults, thereby enhancing the creditworthiness of the bill.

May/June 2009

64. The distribution of products like insurance and mutual funds by banks to augment fee-based income is known as what?
(A) Corporate banking
(B) Para-banking activities
(C) Treasury operations
(D) Universal banking

Ans :

(B) Para-banking activities
Para-banking activities refer to the business functions that banks undertake which are outside their traditional deposit-taking and lending operations. The distribution of third-party products, such as selling insurance policies or mutual fund schemes on behalf of other companies, is a key example of a para-banking activity used to generate fee-based income.

Oct/Nov 2011

65. What must a bank do to undertake para-banking activities by forming a separate subsidiary company?
(A) Obtain approval from the Indian Banks' Association (IBA)

(B) Obtain prior approval from the Reserve Bank of India (RBI)
(C) Inform the Ministry of Finance
(D) Pass a resolution in its Annual General Meeting

Ans :

(B) Obtain prior approval from the Reserve Bank of India (RBI)
While banks can undertake certain para-banking activities departmentally, setting up a dedicated subsidiary for these functions requires regulatory clearance. The Reserve Bank of India (RBI) has stipulated that banks must obtain its prior approval before forming a subsidiary company to carry out para-banking activities, ensuring proper oversight and risk management.

May/June 2010

66. What is the primary reason for a proactive marketer to engage in new product development?
(A) To ensure the organization's survival and achievement of business objectives
(B) To intentionally increase the complexity and number of products in the product range
(C) To strictly comply with annual regulatory requirements for product innovation
(D) To strategically reduce the marketing budget allocated for older, existing products

Ans :

(A) To ensure the organization's survival and achievement of business objectives
New product development is a strategic imperative for long-term survival and growth. As existing products inevitably move through their life cycle and into decline, a proactive marketer must develop new products to replace them. This ensures that the organization can continue to meet changing customer needs, seize new opportunities, and achieve its business objectives.

Oct/Nov 2024

67. Arrange the following stages of the New Product Development process in their correct sequence:
1. Concept Testing
2. Idea Generation
3. Business and Market Analysis
4. Idea Screening
5. Actual Product Development and Commercialisation

(A) 2, 1, 4, 3, 5
(B) 1, 2, 4, 5, 3
(C) 2, 4, 1, 3, 5
(D) 4, 2, 1, 3, 5

Ans :

(C) 2, 4, 1, 3, 5
The new product development process follows a logical funnel-like sequence. It begins with a broad search for ideas (Idea Generation), which are then filtered to separate viable ones from non-viable ones (Idea Screening). The promising ideas are developed into concepts and tested with customers (Concept Testing), followed by a detailed financial and marketing viability check (Business and Market Analysis), and finally, the product is built, tested, and launched (Actual Product Development and Commercialisation).

May/June 2017

68. In the 'Idea Screening' stage of new product development, which of the following questions is a key part of the analysis?
(A) What will be the brand name of the product?
(B) What will be the advertising slogan?
(C) Which celebrity will endorse the product?
(D) Can the existing infrastructure handle the new product?

Ans :

(D) Can the existing infrastructure handle the new product?
Idea Screening is the first filtering stage where ideas are evaluated against a set of criteria. A crucial consideration is practicality. The bank must assess whether its existing infrastructure—be it technological, operational, or human resources—is capable of supporting the development, delivery, and servicing of the proposed new product without significant and prohibitive investment.

Oct/Nov 2005

69. What is the primary goal of the 'Concept Testing' stage in new product development?
(A) To finalize the price of the new product
(B) To test the product's technical performance
(C) To get feedback from customers on the product concept itself
(D) To conduct a cost-benefit analysis from the banker's viewpoint

Ans :

(C) To get feedback from customers on the product concept itself

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Concept Testing focuses on the proposed product idea rather than a physical prototype. The objective is to present the concept to potential customers and gather their feedback. This helps the marketer understand the market's perception and response to the core idea, assessing its attractiveness and potential for acceptance before committing to full-scale development.

May/June 2020

70. The stage of 'Business Analysis and Market Analysis' primarily decides what aspect of the new product?

(A) The product's name and packaging
(B) The product's viability from financial and marketing aspects
(C) The product's user interface and design
(D) The product's internal operational workflow

Ans :

(B) The product's viability from financial and marketing aspects
This stage involves a rigorous evaluation of the product's potential success. It includes a detailed cost-benefit analysis from both the bank's and the customer's perspectives. The analysis also projects the expected increase in business, profits, market share, and the potential impact on competitors, ultimately determining if the product is financially and commercially viable.

Oct/Nov 2015

71. A public sector bank developed a 'Deposit-cum-Credit Linked' product for working women. Initially, customers had to wait for 3 months after opening the Recurring Deposit to avail the loan. This feature met with resistance. How was this "minor irritant" rectified?

(A) The waiting period was reduced to 1 month.
(B) The loan amount was increased to compensate for the wait.
(C) The product was discontinued and a new one was launched.
(D) The process was changed to allow simultaneous RD opening and loan sanction.

Ans :

(D) The process was changed to allow simultaneous RD opening and loan sanction.
Based on market feedback, the bank identified the 3-month waiting period as a significant drawback. To improve market acceptance and remove this "minor irritant," the product feature was immediately rectified. The process was streamlined to permit both the opening of the Recurring Deposit account and the sanctioning of the loan to happen simultaneously.

May/June 2013

72. A public sector bank branch in a high-emigration area developed a 'Visa Loan' for semi-skilled labourers moving to Gulf countries. Besides the repayment of loans, what was a significant long-term business benefit that resulted from this new product?

(A) The beneficiaries opened Non-Resident Savings and Deposit Accounts and sent large remittances.
(B) The bank became the sole lender for all travel-related expenses in the district.
(C) The bank received an award for innovative product development.
(D) The bank was able to charge higher interest rates on these loans.

Ans :

(A) The beneficiaries opened Non-Resident Savings and Deposit Accounts and sent large remittances.
The 'Visa Loan' was a strategic success that went beyond simple loan recovery. The loan beneficiaries, upon reaching the Gulf, not only repaid their loans but also became loyal customers. They opened Non-Resident (NR) deposit accounts with the branch and channeled significant remittance flows back home, substantially boosting the branch's overall business and deposit base.

Oct/Nov 2021

73. "Heterogeneity of the customer base in different branches is one of the external constraints. It would be very difficult to develop a new product to satisfy all the customer segments. The bank while they develop new product, has to take this constraint into account and crystallize the homogeneity among the heterogeneous group..." Based on this text, what must a bank do to overcome the constraint of a heterogeneous customer base?

(A) Attempt to develop a single, universal product to satisfy all customer segments
(B) Focus exclusively on new product development while ignoring the customer base

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(C) Identify and crystallize a homogenous group within the larger heterogeneous base
(D) Cease new product development because of the difficulty posed by diversity

Ans :

(C) Identify and crystallize a homogenous group within the larger heterogeneous base
The text explicitly states that satisfying all segments with one product is very difficult due to customer heterogeneity. To manage this constraint, the bank must analyze its diverse customer base to identify a subgroup that shares common needs or characteristics. By "crystallizing the homogeneity," the bank can design a targeted product for this specific, more uniform segment.

May/June 2024

74. Which of the following is cited as a constraint in new product development related to technology?
(A) Rapid product obsolescence due to fast-changing technology
(B) The unusually slow pace of technological change within the banking industry
(C) The prohibitively high cost of implementing any new technological solutions
(D) A general lack of customer acceptance or trust in new banking technology

Ans :

(A) Rapid product obsolescence due to fast-changing technology
A major constraint in the modern era is the rapid pace of technological revolution. This leads to very fast product obsolescence, where a new product can become outdated quickly. This shortens the product's life cycle, especially the profitable maturity phase, and drastically affects the long-term economics and return on investment for the new product.

Oct/Nov 2008

75. Resistance from staff, who may view new products as an increase in their workload or a threat of relocation, is an example of what type of constraint in new product development?
(A) An external constraint originating from outside the bank's control
(B) A technological constraint related to the IT infrastructure
(C) A financial constraint based on budget and funding limitations
(D) An attitudinal problem or internal constraint

Ans :

(D) An attitudinal problem or internal constraint
Staff resistance is an internal, human-factor constraint. This "attitudinal problem" arises from the perception that new products will lead to an increased workload, require learning new skills, or could even result in staff pruning or redeployment. Overcoming this internal resistance is a critical challenge for the successful implementation of new product initiatives within a bank.

May/June 2006

76. According to Theodre Levitt's model of product evolution, which level represents the unbranded, undifferentiated core product, like a basic Savings Account?
(A) The Expected Product
(B) The Generic Product
(C) The Augmented Product
(D) The Potential Product

Ans :

(B) The Generic Product
The Generic Product is the first and most basic level in Levitt's model. It represents the fundamental, core benefit or the unbranded commodity version of the product. In banking, examples include a simple, no-frills Savings Account, Current Account, or Term Deposit, stripped of any additional features, branding, or value-added services.

Oct/Nov 2017

77. In Theodre Levitt's product evolution model, incorporating a Pass Book, cheque book, and withdrawal slips into a Savings Bank account to meet minimal customer expectations is an example of creating what?
(A) The Generic Product
(B) The Augmented Product
(C) The Expected Product
(D) The Potential Product

Ans :

(C) The Expected Product
The Expected Product represents the set of attributes and conditions that customers minimally expect when they purchase a product. For a savings account, customers expect to be able to withdraw money, deposit cheques, and

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track their balance. Providing facilities like a cheque book and passbook meets these basic expectations, thus forming the expected product.

May/June 2008

78. A bank offering the facility to operate a Savings Account from any of its branches across India, a feature not necessarily expected by the customer, is an example of which product level?
(A) The Generic Product
(B) The Expected Product
(C) The Potential Product
(D) The Augmented Product

Ans :

(D) The Augmented Product
The Augmented Product includes voluntary improvements and value additions made by the marketer that exceed customer expectations. The facility of 'anywhere banking', allowing a customer to access their account from any branch, is a feature that enriches the core product and provides extra convenience, thus qualifying as an augmentation.

Oct/Nov 2013

79. Consider the following statements regarding Theodre Levitt's product levels:
i. The Generic Product is the core, undifferentiated commodity.
ii. The Expected Product includes features that are neither suggested nor expected by the customer.
iii. The Augmented Product consists of voluntary improvements brought about by the marketer.
iv. The Potential Product represents all possible future enhancements.
Which of the statements are correct?
(A) i, ii, and iii only
(B) i, iii, and iv only
(C) ii and iv only
(D) i, ii, iii, and iv

Ans :

(B) i, iii, and iv only
Statement (ii) is incorrect; it describes the Augmented Product, not the Expected Product. The Expected Product represents minimal purchase conditions. Statement (i) correctly defines the Generic Product. Statement (iii) accurately describes the Augmented Product as voluntary enhancements. Statement (iv) correctly defines the Potential Product as encompassing all future possibilities for the product.

May/June 2015

80. What does 'The Potential Product' encompass?
(A) The product's currently existing features and tangible benefits
(B) Everything that might be done in the future to attract and hold customers
(C) The absolute minimal conditions required for a customer purchase
(D) The basic, unbranded, commodity version of the product offering

Ans :

(B) Everything that might be done in the future to attract and hold customers
The Potential Product is the outermost layer of the product concept and looks toward the future. It includes all conceivable augmentations, transformations, and new features that the product might undergo over its lifetime. It represents "tomorrow's product" and the enormous scope for future improvements to attract and retain customers in a changing competitive landscape.

Oct/Nov 2012

81. Cardless cash withdrawal from an ATM is an example of which level of product, representing a future improvement to overcome risks associated with card operations?
(A) Generic Product
(B) Potential Product
(C) Expected Product
(D) Augmented Product

Ans :

(B) Potential Product
Cardless cash withdrawal represents a forward-looking innovation. It is part of the Potential Product sphere because it addresses future needs and overcomes existing challenges (like card skimming or loss). It is an example of what might be done to redesign and improve the product, making it a feature of "tomorrow's product" that attracts and retains customers.

May/June 2011

82. Which of the following is NOT listed as a core concept involved in developing a bank's product policy?
(A) Decisions on staff compensation

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(B) Appraisal of the product line
(C) Decisions on product differentiation
(D) New Product Development

Ans :

(A) Decisions on staff compensation
A bank's product policy focuses on the strategic management of its product portfolio. The key concepts involved are the appraisal of product lines, decisions on differentiation, positioning, branding, packaging, and new product development. While staff compensation is an important HR policy, it is not considered a direct component of the product policy itself.

Oct/Nov 2020

83. What is the process of integrating various recurring deposit products into a single offering to clear confusion among the customer base an example of?
(A) Product differentiation
(B) Product positioning
(C) Product pruning
(D) Product branding

Ans :

(C) Product pruning
When a bank has too many product extensions or variants that create confusion, it may undertake an exercise to streamline its offerings. Integrating multiple, similar recurring deposit schemes into one simplified product is an act of product pruning. This helps in reducing the unwieldiness of the product range and improves clarity for customers.

May/June 2022

84. What is the tool available to bank marketers to differentiate their product from competitors' offerings by highlighting a specific, unique feature?
(A) Customer Relationship Management (CRM)
(B) Business Process Re-engineering (BPR)
(C) Know Your Customer (KYC)
(D) Unique Selling Proposition (USP)

Ans :

(D) Unique Selling Proposition (USP)
The Unique Selling Proposition (USP) is a marketing tool used for product differentiation. It involves identifying and promoting a specific feature or benefit of a product that is unique and not offered by competitors. By highlighting this USP, a marketer can create a distinct identity for the product in a crowded and competitive marketplace.

Oct/Nov 2023

85. For a Reinvestment Deposit Plan, the 'cumulative interest on a quarterly compounded basis' is an example of what?
(A) A product brand name
(B) A product life cycle stage
(C) A Unique Selling Proposition (USP)
(D) A customer segment

Ans :

(C) A Unique Selling Proposition (USP)
The feature of earning cumulative interest that is compounded quarterly is a specific and attractive benefit of a Reinvestment Deposit Plan. This distinct feature, which differentiates it from simple interest deposits, serves as its Unique Selling Proposition (USP). It is the key benefit that a marketer would highlight to attract customers to this particular product.

May/June 2016

86. According to Rosser Reeves' definition in 'Reality in Advertising', what is 'Positioning'?
(A) The art of designing the product's visual packaging and memorable brand name
(B) The art of selecting, out of a number of USPs, the one which will get you maximum sales
(C) The detailed process of setting a product's price based on competitor analysis
(D) The logistical strategy of placing a product in the maximum number of distribution channels

Ans :

(B) The art of selecting, out of a number of USPs, the one which will get you maximum sales
Rosser Reeves defines 'Positioning' as a strategic choice. A product may have several unique selling propositions (USPs). Positioning is the art of carefully selecting and emphasizing the single most powerful USP that is most likely to resonate with the target audience and, as a result, generate the maximum possible sales for the product.

Oct/Nov 2009

87. "Positioning therefore starts with the understanding or 'mapping' of a prospective/ existing customer's mental perception of products. The customer's mind would be occupied

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with the different products/services of different banks based on the following positioning grid."
According to this text, what is the starting point of product positioning?
(A) Designing the product's features
(B) Setting the product's price
(C) Creating an advertising campaign
(D) Understanding the customer's mental perception of products

Ans :

(D) Understanding the customer's mental perception of products
The provided text clearly states that positioning begins with a crucial first step: understanding and mapping how a customer mentally perceives various products. It is not about the product's physical attributes but about the space it occupies in the customer's mind relative to competing products. This mental map is the foundation upon which a positioning strategy is built.

May/June 2023

88. According to the positioning guru Jack Trout, positioning is defined as 'not as what you do to the product, but what you do to the...'?
(A) mind
(B) competition
(C) price
(D) distribution

Ans :

(A) mind
Jack Trout's famous definition of positioning emphasizes its psychological nature. He argues that positioning is not about altering the physical product itself. Instead, it is a communication strategy focused on creating a specific perception or occupying a distinct and valued place in the mind of the target customer, relative to competing offerings.

Oct/Nov 2018

89. A foreign bank decades ago launched a product called 'Unfixed Deposit'. It offered the high returns of a Fixed Deposit along with the liquidity of a savings account (withdrawal via cheque book). This product became an instant hit. This is a classic case of which marketing strategy?
(A) Product Branding
(B) Product Pruning
(C) Product Positioning
(D) Market Segmentation

Ans :

(C) Product Positioning
This is a classic example of product positioning. The bank identified a gap in the customer's mind: the trade-off between return and liquidity. By creating a product that offered both, it occupied a unique and highly desirable position. The 'Unfixed Deposit' was positioned as a solution that resolved this conflict, making it stand apart from traditional FDs and savings accounts.

May/June 2007

90. When environmental changes or competition threaten a product's established position, and marketers review and add value to the product to recapture or retain that position, what is this approach called?
(A) Repositioning strategy
(B) Diversification strategy
(C) Market penetration strategy
(D) Product development strategy

Ans :

(A) Repositioning strategy
A product's position in the consumer's mind is not permanent and can be threatened by competition or market changes. A repositioning strategy involves actively modifying the product's features, USP, or marketing communication to alter its perceived image. The goal is to recapture a lost position or adapt to new market realities to retain its relevance.

NODIA

Oct/Nov 2025

91. Giving a car loan scheme the catchy name 'Pushpaka' or a housing loan scheme the name 'Subha Gruha' is an example of which marketing activity?
(A) Product Positioning
(B) Product Differentiation
(C) Product Pruning
(D) Product Branding

Ans :

(D) Product Branding
Product branding involves giving a product a distinct and attractive name that reflects its features and helps create customer awareness and recall. Naming a car loan 'Pushpaka' (a mythical flying chariot) or a home loan 'Subha Gruha' (auspicious home) are examples of this

strategy, aimed at helping customers identify the specific product with the bank.

May/June 2012

92. "In the liability side, Banks offer different retail products like Demand Deposits, Time Deposits with different variations with regard to product features and duration. In the asset side banks offer mainly Home Loans, Auto Loans, Personal Loans and credit lines against credit card receivables."

93. Based on this summary, which product is considered a primary retail asset product for a bank?

(A) Demand Deposits
(B) Home Loans
(C) Time Deposits
(D) Fee-based products

Ans :

(B) Home Loans
The text clearly segregates bank products into liability and asset sides. It lists Demand Deposits and Time Deposits under the liability side. Under the asset side, which represents loans and advances, it explicitly mentions Home Loans, Auto Loans, and Personal Loans as the main offerings. Therefore, Home Loans are a primary retail asset product.

Oct/Nov 2014

94. "To improve the sale of products, banks adopt different strategies and market with Unique Selling Propositions (USPs) and proper positioning and branding strategies are adopted by banks."
According to this statement, which three strategies do banks adopt to improve product sales?

(A) Cost reduction, process re-engineering, and technology upgradation
(B) Customer segmentation, market research, and feedback analysis
(C) Using USPs, proper positioning, and branding
(D) Centralized processing, branch-level sales, and digital marketing

Ans :

(C) Using USPs, proper positioning, and branding
The summary statement explicitly lists the key marketing strategies that banks adopt to enhance the sale of their products. These are the use of Unique Selling Propositions (USPs) to differentiate products, implementing proper positioning to occupy a specific place in the customer's mind, and adopting branding strategies to create recall and identity.

May/June 2019

95. What is the primary function of a passbook for a savings account holder?

(A) To serve as a functional debit card for making ATM withdrawals
(B) To automatically sanction an overdraft against the account balance
(C) To facilitate direct online shopping and recurring utility bill payments
(D) To act as an identity and residential proof and keep a record of transactions

Ans :

(D) To act as an identity and residential proof and keep a record of transactions
A savings account passbook serves multiple functions for the account holder. It provides a physical, chronological record of all transactions (deposits and withdrawals), allowing the customer to keep track of their account activity and balance. Additionally, it is widely accepted as a valid document for proof of identity and residence.

Oct/Nov 2006

96. A bank is planning to introduce a new loan product specifically for artists and freelance writers who have irregular income streams. The product team is currently conducting surveys and focus groups to understand the specific financial challenges and borrowing needs of this group. Which stage of New Product Development is the bank currently in?

(A) Idea Generation
(B) Idea Screening
(C) Business Analysis
(D) Concept Testing

Ans :

(A) Idea Generation
The bank is in the Idea Generation stage. This initial phase involves activities like market research, customer surveys, and gathering feedback to identify unmet needs and potential opportunities for new products. By studying the specific challenges of artists and freelancers, the bank is generating ideas based on the expectations and problems of a potential customer segment.

NODIA

May/June 2021

97. Which of the following pairs correctly matches the banking product term with its description?
(A) Overdraft - A long-term loan with a fixed repayment schedule.
(B) Bill Finance - A self-liquidating facility against receivables.
(C) Term Loan - A credit facility allowing free operation within a set limit.
(D) Cash Credit - A short-term credit adjusted in a very short time.

Ans :

(B) Bill Finance - A self-liquidating facility against receivables.
Bill Finance is correctly described as a self-liquidating facility. The credit extended by the bank by purchasing or discounting bills is automatically repaid (liquidated) upon the realization of the bill amount from the drawee on the due date. The other pairs are mismatched with their descriptions.

Oct/Nov 2010

98. Which of the following statements about a Time Deposit Receipt is correct?
(A) It is a negotiable instrument and can be transferred by endorsement.
(B) It is not a negotiable instrument and cannot be transferred by endorsement.
(C) It is a bearer instrument payable to whoever holds it.
(D) It can be freely traded on the stock exchange.

Ans :

(B) It is not a negotiable instrument and cannot be transferred by endorsement.
A time deposit receipt (like a Fixed Deposit Receipt) is a contract between the bank and the named depositor(s). It is merely an acknowledgement of debt from the bank. It is not a negotiable instrument under the Negotiable Instruments Act, 1881, and therefore, its ownership cannot be transferred to another person simply by endorsement.

May/June 2005

99. Statement I: For KYC periodic updation, physical presence of a low-risk customer at the branch shall not be insisted upon.
Statement II: e-KYC process using OTP-based authentication is not permitted for the purpose of periodic updation.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct and Statement II is incorrect.
(D) Statement I is incorrect and Statement II is correct.

Ans :

(C) Statement I is correct and Statement II is incorrect.
Statement I is correct; to simplify the process for low-risk customers, their physical presence is not mandatory for periodic updation. Statement II is incorrect; the guidelines explicitly allow the use of e-KYC with OTP-based authentication for periodic updation, provided the customer was subjected to a full KYC process during initial onboarding.

Oct/Nov 2022

100. Ms. Priya holds a 'Basic Savings Bank Deposit Account' (BSBDA). In the first week of a month, she makes two ATM withdrawals. In the third week, she withdraws cash from the branch counter. In the fourth week, she makes another ATM withdrawal and one withdrawal via UPI. How many of her withdrawals are permissible within the BSBDA rules?
(A) All five withdrawals are permissible.
(B) Only the ATM withdrawals are permissible.
(C) Only the first four withdrawals are permissible.
(D) Only the branch withdrawal is permissible.

Ans :

(C) Only the first four withdrawals are permissible.
The BSBDA rules allow a maximum of four withdrawals per month, inclusive of all channels (ATM, branch, UPI, etc.). Ms. Priya's total withdrawals amount to five (2 ATM + 1 branch + 1 ATM + 1 UPI). Therefore, only the first four transactions would be considered permissible within the free services offered under the BSBDA framework for that month.

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CHAPTER 7
Credit Scoring

May/June 2016

1. According to the introductory remarks in the chapter, what is described as the basic economic function of regulated banking entities?
   (A) To eliminate all forms of financial risk from their portfolios
   (B) To take and manage risk in a professional manner
   (C) To maximize profits by avoiding any form of lending activity
   (D) To focus exclusively on investing in government-backed securities

   Ans :

   (B) To take and manage risk in a professional manner
   The chapter begins by emphasizing that the primary economic function of banks is to take risks. Minimizing risk to zero would effectively eliminate the core purpose of the banking system. Therefore, the key is not to avoid risk entirely but to manage it professionally, which is where tools like credit scoring become essential for informed decision-making.

Oct/Nov 2009

2. Which of the following is NOT listed as a primary factor influencing an individual's credit score?
   (A) Annual income and employment stability
   (B) Payment history on past and current loans
   (C) Current debt and length of credit held
   (D) Types of credit availed and new credit inquiries

   Ans :

   (A) Annual income and employment stability
   While income is crucial for loan assessment, the chapter specifies that a credit score itself is influenced by factors like payment history, types of credit availed, new credit, current debt, and length of credit held. Annual income is part of the overall credit appraisal but not a direct component used by credit bureaus to calculate the score itself.

NODIA

May/June 2023

3. Match the type of risk with its corresponding trigger as mentioned in the introductory section.
   List-I (Type of Risk)
   P. Credit Risk
   Q. Business Risk
   R. Market Risk
   S. Operating Risk
   List-II (Trigger)
   1. Change in market prices
   2. Processing failures and frauds
   3. Customer fails to pay
   4. Losing money due to wrong strategy
   (A) P-3, Q-4, R-1, S-2
   (B) P-4, Q-3, R-2, S-1
   (C) P-3, Q-1, R-4, S-2
   (D) P-2, Q-4, R-1, S-3

   Ans :

   (A) P-3, Q-4, R-1, S-2
   The chapter explicitly pairs each risk type with its trigger. Credit Risk is associated with a customer's failure to pay. Business Risk arises from a wrong strategy leading to financial loss. Market Risk is linked to changes in market prices, and Operating Risk is caused by processing failures and frauds. This matching correctly aligns these pairs.

Oct/Nov 2018

4. What is the primary purpose of introducing credit scoring for retail loans, as per the text?
   (A) To fully replace the subjective judgment of professional loan officers with an automated system
   (B) To create an exclusive channel for high-net-worth clients to receive preferential interest rates
   (C) To remove the requirement for banks to collect any personal or financial data from loan applicants
   (D) To implement a reason-based and professional appraisal mechanism for sanctioning retail loans

Ans :

(D) To implement a reason-based and professional appraisal mechanism for sanctioning retail loans
The text states that to obviate risks and ensure a professional appraisal, the concept of credit scoring was introduced by banks. This system provides a structured, reason-based mechanism for sanctioning retail loans, moving away from purely subjective assessments and improving the quality of the credit portfolio by using a centralized, data-driven approach for risk mitigation.

May/June 2007

5. Which of the following statements is correct regarding the relationship between a borrower's credit record and loan terms?
(A) A borrower's past credit record has no impact on the interest rate offered for a loan
(B) Only payment defaults are considered, while timely payments do not affect the credit record
(C) A good credit score can make loan terms friendlier, often resulting in lower interest rates
(D) Banks are prohibited by law from sourcing credit scores from any external agencies

Ans :

(C) A good credit score can make loan terms friendlier, often resulting in lower interest rates
The text highlights that a good credit record is crucial for a loan applicant. A strong credit score, sourced from credit information agencies, demonstrates creditworthiness to the lending bank. This positive assessment can result in more favorable loan terms, specifically making the loan "friendlier" by offering it at lower rates of interest for the borrower.

Oct/Nov 2025

6. What fundamental shift has occurred in lending practices with the entry of credit assessment agencies?
(A) Banks now rely solely on an applicant's own self-furnished financial information
(B) Banks can now judge borrowers by sourcing credit scores from various external agencies
(C) Lending has become exclusively limited to a bank's pre-existing customer base
(D) The interest rate for all borrowers is now standardized regardless of their risk profile

Ans :

(B) Banks can now judge borrowers by sourcing credit scores from various external agencies
Previously, banks relied on their own limited experience with an individual. The text explains that this changed with the arrival of agencies that assess creditworthiness. Now, lending banks can source an applicant's credit score from these agencies to supplement the loan application, providing a broader and more objective view of the borrower's credit history and discipline.

May/June 2012

7. How does a prior default on a loan from one bank affect an applicant's chances with another lender?
(A) The new lender will have no official awareness or record of the previous default event
(B) The default is considered irrelevant as long as the applicant currently has a high income level
(C) The default only affects new applications for the exact same type of loan product
(D) The default lowers the applicant's credit score, which the new lender can then access

Ans :

(D) The default lowers the applicant's credit score, which the new lender can then access
The text states that if an applicant has defaulted on a loan from one bank, this negative event will bring down their credit score. Since other lenders are privy to this score through credit information agencies, it can determine not only whether the applicant gets a new loan but also the interest rate they are offered.

Oct/Nov 2014

8. What is a credit score fundamentally defined as?
(A) A statistical analysis of an individual's past credit dealings and payment discipline
(B) A legal document that officially certifies a person's total income and all declared assets
(C) A bank's internal rating system based solely on a customer's average daily deposit balance
(D) A government-issued universal identification number used for all personal financial transactions

Ans :

(A) A statistical analysis of an individual's past credit dealings and payment discipline

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The chapter defines a credit score as a statistical analysis of an individual's past credit dealings, which represents their credit discipline. It is derived from their history with various credit products like loans and credit cards. This numerical representation helps lenders assess the creditworthiness of a potential borrower in a standardized and objective manner.

May/June 2019

9. What mandate has the Reserve Bank of India (RBI) issued regarding Credit Information Companies (CICs) and individual credit reports?

(A) To provide a detailed, paid-for credit report to all individual consumers on a monthly basis

(B) To legally prohibit individuals from directly accessing their own credit reports from any CIC

(C) To provide one Free Full Credit Report (FFCR) to individuals annually upon request

(D) To automatically mail a summarized credit report to every individual resident on an annual basis

Ans :

(C) To provide one Free Full Credit Report (FFCR) to individuals annually upon request

The text explicitly states that the Reserve Bank of India (RBI) has made it mandatory for all Credit Information Companies (CICs) in the country to provide a Free Full Credit Report (FFCR) without any charge. This service is available to individuals whose credit history is available, upon request, once per calendar year since January 1, 2017.

Oct/Nov 2006

10. What is the typical numerical range for credit scores in India?

(A) 300 to 900

(B) 100 to 500

(C) 0 to 1000

(D) 500 to 1000

Ans :

(A) 300 to 900

The chapter specifies that a credit score transforms a consumer's credit report information into a 3-digit number. This number represents the risk associated with the individual for a particular transaction. The text clearly states that credit score values range from 300 to 900, providing a standardized scale for lenders to evaluate borrower risk.

May/June 2021

11. What does RBI's directive regarding the Credit Information Report (CIR) ensure about its content?

(A) It includes only specific information from commercial loan modules for corporate clients

(B) It is strictly limited to a borrower's transactions with a single financial institution

(C) It intentionally excludes any information related to credit card usage to protect user privacy

(D) It must incorporate all credit information from both consumer and commercial modules

Ans :

(D) It must incorporate all credit information from both consumer and commercial modules

The text mentions an RBI directive that aims for comprehensiveness in credit reporting. It mandates that the Credit Information Report (CIR) for a borrower, furnished to Credit Institutions, must incorporate all the credit information available across all modules, including consumer and commercial credit, to provide a holistic view of the borrower's financial commitments and history.

Oct/Nov 2010

12. What was the primary driver for Indian banks to seek assistance from credit information companies as retail banking evolved?

(A) The need to focus all lending activities exclusively on the rich and historically affluent classes

(B) The need for sophisticated methods to assess a borrower's repayment ability accurately

(C) A new and sudden regulatory requirement to stop all outstanding retail lending activities

(D) The desire to increase base interest rates for all customers in a uniform manner

Ans :

(B) The need for sophisticated methods to assess a borrower's repayment ability accurately

As retail banking in India expanded from serving the affluent to lower-income groups, lenders required more sophisticated methods. The text explains that banks sought help from credit information companies to accurately assess the repayment ability of this broader customer base

NODIA

(D) The relationship varies randomly and cannot be reliably determined for individuals

Ans :

(C) A higher score consistently indicates a lower probability of default

The text clearly states the inverse relationship between these two variables within a credit scoring model. The probability of default is presented in the form of a credit score, where a higher score refers to a lower probability of default, and vice versa. A high-scoring individual is considered less risky by lenders.

Oct/Nov 2011

22. Which of the following are the three historical data files typically used by Credit Information Companies (CICs) to build scores?

i. Defaults on previous credit transactions
ii. Payment behaviour/Payment history
iii. Previous searches/inquiries
iv. Declared annual income

(A) (i), (ii) and (iv)
(B) (i), (ii) and (iii)
(C) (i), (iii) and (iv)
(D) (ii), (iii) and (iv)

Ans :

(B) (i), (ii) and (iii)

The chapter specifies the core data sources used by CICs to construct credit scores. It lists three types of historical data files: defaults on previous credit transactions, payment behaviour or payment history, and previous searches or inquiries made for credit. Annual income, while important for loan eligibility, is not listed as a direct input for score calculation.

May/June 2010

23. In the Indian context, which two factors are particularly noted for their inclusion in computing the credit score?

(A) A high savings account balance and documented evidence of frequent foreign travel
(B) A very low number of credit inquiries and an exceptionally long credit history
(C) Documented ownership of multiple properties and having a stable government job
(D) High utilisation of the available credit limit and a high percentage of unsecured loans

Ans :

(D) High utilisation of the available credit limit and a high percentage of unsecured loans

The text points out specific factors that CICs in India are known to incorporate into their scoring models. These include high utilisation of the available credit limit (especially on credit cards) and having a loan portfolio with a higher percentage of unsecured loans (like personal loans or credit cards), as these are indicators of higher risk.

Oct/Nov 2024

24. What is described as a key advantage of credit scoring conducted by a CIC?

(A) It establishes a quantifiable, numeric measure of risk in an otherwise subjective process
(B) It allows for a completely subjective and highly personalized assessment of a borrower
(C) It eliminates the need for banks to maintain any of their own internal risk controls
(D) It legally guarantees that every single applicant will be approved for a loan facility

Ans :

(A) It establishes a quantifiable, numeric measure of risk in an otherwise subjective process

The chapter highlights that credit decision-making can be a highly subjective process. A key advantage of credit scoring is the CIC's ability to introduce objectivity by establishing a quantifiable, numeric measure of risk. This numeric value, representing a person's credit discipline, is extremely useful for making consistent and data-driven credit decisions, reducing lender bias.

May/June 2017

25. An individual has a credit card with a "safe limit" of ₹10,000. For several months, they have consistently maintained a balance of ₹9,500 and are now applying for a new personal loan. Based on the concept of credit utilization, what is the most likely outcome?

(A) Their credit score will likely increase due to their consistent and high-volume card usage
(B) The credit utilization will be viewed as a positive sign of very high creditworthiness
(C) Their credit score could fall, as this behavior suggests they may be overleveraged

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enables them to make informed lending decisions and avoid sanctioning loans to individuals likely to default.

May/June 2014

17. On what factors does the determination of a "good" credit score primarily depend?
(A) A universal standard that is primarily based on the applicant's age and gender
(B) The specific bank's internal policy, target customer profile, and overall risk appetite
(C) A single, rigid standard set by the Reserve Bank of India for all loan types
(D) The type of product being applied for, regardless of the individual bank's policies

Ans :

(B) The specific bank's internal policy, target customer profile, and overall risk appetite
The text explains that whether a score is considered good is not universal but is subjective to the lender. It depends on the specific bank's internal policy, its target customer profile, and its overall risk appetite. For instance, a score of 700 might be acceptable to one bank but not to another with a more conservative approach.

Oct/Nov 2007

18. While different banks may have varying standards, what credit score is generally considered good in India?
(A) Any score above 700
(B) Any score above 400
(C) Any score above 500
(D) Any score above 600

Ans :

(A) Any score over 700
The chapter notes that the definition of a good score can vary between banks. However, it provides a general benchmark prevalent in the Indian banking industry. It states that "any score over 700 may be considered good by banks," making it a common threshold for applicants to be viewed favorably for credit facilities.

May/June 2025

19. Besides reducing defaults, what are the other operational benefits for banks using credit scores?
(A) An unavoidable increase in paperwork and significantly longer processing times for loans
(B) The ability to charge much higher mandatory processing fees on all types of loans
(C) Making the loan disbursal process faster and improving overall operational efficiency
(D) Eliminating the legal need for any form of customer identity verification during onboarding

Ans :

(C) Making the loan disbursal process faster and improving overall operational efficiency
The use of an objective tool like a credit score provides multiple advantages for banks beyond just risk management. The text mentions that it helps to make loan disbursing faster, improves overall operational efficiency, and helps bring costs down by streamlining the decision-making process for a large volume of retail loan applications.

Oct/Nov 2019

20. What does a credit scoring model primarily estimate?
(A) The future income potential and long-term earning capacity of an applicant
(B) The total market value of all assets and investments owned by an applicant
(C) The ideal benchmark interest rate for the national economy and banking sector
(D) The statistical probability of default by a customer on a credit obligation

Ans :

(D) The statistical probability of default by a customer on a credit obligation
A credit scoring model is explicitly defined as a mathematical model used to estimate the probability of default. This refers to the likelihood that a customer may trigger a credit event such as bankruptcy, obligation default, or failure to pay. The model quantifies this risk, which is then typically presented in the form of a 3-digit credit score.

May/June 2009

21. In a credit scoring model, what is the relationship between the credit score and the probability of default?
(A) A higher score is designed to indicate a higher probability of default
(B) The credit score is confirmed to have no statistical correlation with default probability
(C) A higher score consistently indicates a lower probability of default

NODIA

(C) It legally requires the lender to waive all processing fees and other associated charges
(D) It positions the borrower to negotiate for and extract the best possible rates from lenders

Ans :

(D) It positions the borrower to negotiate for and extract the best possible rates from lenders
The text explains that a well-informed borrower is an empowered one. With a Credit Information Report in hand, an individual is in "a good position to make decisions regarding availing new forms of credit, while also being able to extract the best possible rates from banks or other lenders," especially if their report is strong.

May/June 2007

47. Which of the following actions is a factor leading to a FAVOURABLE credit score?
(A) Paying credit card bills in full rather than the minimum due
(B) Paying only the minimum due amount on credit card bills every time
(C) Frequently applying for unsecured personal loans from various different banks
(D) Requesting credit reports frequently through multiple financial institutions in a short period

Ans :

(A) Paying credit card bills in full rather than the minimum due
The chapter lists several factors that contribute positively to a credit score. One specific action highlighted is "Paying credit card bills in full rather than paying minimum due amount every time." This behavior demonstrates strong financial capacity and discipline, signaling to lenders that the borrower is low-risk and can manage their debts effectively.

Oct/Nov 2025

48. Identify the action that leads to a NEGATIVE credit score from the options below.
(A) Maintaining a strong and consistent financial record over many years
(B) Too many credit report enquiries by banks and other institutions
(C) Proper and responsible utilization of the approved credit limit
(D) Consistent and on-time payment of all loan EMIs

Ans :

(B) Too many credit report enquiries by banks and other institutions
The text provides a distinct list of factors that lead to a negative credit score. The first item on this list is "Too many credit report enquiries by banks and other institutions." This is often interpreted as a sign that the individual is desperately seeking credit, which increases their perceived risk profile and can lower their score.

May/June 2012

49. Which of the following is NOT listed as a factor leading to a negative credit score?
(A) Cheque bounces/dishonours related to loan repayments
(B) Maintaining a mix of secured and unsecured credit
(C) Irregular or delayed loan repayments to any lender
(D) Defaulting on credit card bills or making consistent part payments

Ans :

(B) Maintaining a mix of secured and unsecured credit
The chapter identifies several negative factors, including cheque bounces, irregular repayments, and defaulting on card payments. However, having a good mix of credit types (as mentioned under "Trade Attributes") is generally considered a positive factor that improves a score, not a negative one. It shows the ability to manage different kinds of financial responsibilities.

Oct/Nov 2014

50. Consider the following statements about factors affecting a credit score:
1. Avoiding over-leveraging leads to a favourable credit score.
2. Defaulting on credit card bills by making late payments leads to a negative credit score.
3. Too many forms of unsecured personal loans among family members can lead to a favourable score.

Which of the statements is/are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2 and 3

Ans :

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(D) The high utilization of the credit limit will have no discernible impact on their credit score

Ans :

(C) Their credit score could fall, as this behavior suggests they may be overleveraged
The text uses a similar example to explain credit utilization. Using a high percentage of the available credit limit and simultaneously seeking further credit is a red flag. It suggests the individual may be overleveraging themselves to manage finances, which is perceived as risky by lenders and could cause their credit score to fall.

Oct/Nov 2005

26. What negative interpretation can be drawn from frequent and unnecessary "shopping for credit"?
(A) It indicates the individual may be over-hungry for loans, which negatively impacts the score
(B) It suggests the individual is financially savvy and carefully exploring the best available market options
(C) It implies the individual has a very high income and can therefore easily afford multiple new loans
(D) It shows the individual is likely planning to make a single large investment in the near future

Ans :

(A) It indicates the individual may be over-hungry for loans, which negatively impacts the score
The chapter warns against certain behaviors that can harm a credit score. Unnecessary and frequent shopping for credit, applying for multiple credit lines, or opening too many new accounts in a short period can be interpreted as a sign of being "over-hungry for loans." This behavior suggests financial distress and negatively impacts the credit score.

May/June 2020

27. When considering "Payment Defaults" for credit scoring, what aspect is most favorable for the borrower?
(A) Having many past due accounts, but all of them for very small monetary amounts
(B) Having few past due accounts, with short delays, and for very small amounts
(C) The number of days an account has been past due is not a factor considered in scoring
(D) Having few past due accounts, with short delays, and for very small amounts

Ans :

(D) Having few past due accounts, with short delays, and for very small amounts
The text poses questions to evaluate payment defaults: "How many past accounts are due, by how many days and by how much?" It then states, "The fewer, the better." This implies that the ideal situation is to have the minimum number of defaults, for the shortest duration, and for the smallest possible amounts.

Oct/Nov 2015

28. What does the term "Trade Attributes" refer to in the context of managing a credit score?
(A) The borrower's current profession and their specific line of business or industry
(B) The age, variety, and mix of an individual's different credit lines
(C) The stock market investments and other marketable securities held by the borrower
(D) The international trade activities of the company where the borrower is employed

Ans :

(B) The age, variety, and mix of an individual's different credit lines
In the section on managing the credit score, "Trade Attributes" is explained by asking questions like "How old are your lines of credit and what type are they?" and "Do you have a good mix or is it, say, all credit cards?". This shows that it refers to the characteristics of the credit accounts, such as their age and variety.

May/June 2013

29. How does a history of consistent repayment of various types of credit affect a score?
(A) It has no measurable or significant effect on the credit score calculation
(B) It can negatively impact the score by showing an excessive amount of credit activity
(C) It demonstrates responsible behavior and will improve the score
(D) It is only considered positive if all credit is from a single banking institution

Ans :

(C) It demonstrates responsible behavior and will improve the score

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Oct/Nov 2012

38. Who are the usual customers of Credit Information Companies (CICs)?
(A) Individual borrowers who are seeking personal loans for consumption
(B) Banks and Non-Banking Financial Institutions
(C) Government regulatory bodies like the Reserve Bank of India
(D) Stock market investors and institutional traders

Ans :

(B) Banks and Non-Banking Financial Institutions
The text clearly identifies the client base for CICs. It states that the financial data collected by a CIC is shared with its members. The chapter concludes this definition by specifying that "Banks, Non-Banking Financial institutions are usually the customers of Credit Information Companies," as they use the data for lending decisions.

May/June 2011

39. Assertion (A): A borrower should be judicious about closing old credit accounts, as older accounts are generally better for a credit score.
Reason (R): Closing an old account shortens the overall length of an individual's credit history, which is a key factor in credit score calculation.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The text advises being judicious about closing old accounts because a longer credit history is better. The reason for this is that the length of credit history is a significant parameter in scoring. Closing an old account, especially one with a good payment record, can reduce the average age of accounts, thereby shortening the perceived credit history and potentially lowering the score.

Oct/Nov 2020

40. A borrower, Mr. Kumar, has a 12-year-old credit card with a perfect payment record and a recently acquired 1-year-old auto loan. To reduce the number of accounts he manages, he decides to close the old credit card account. What is the most probable impact on his credit score?
(A) His score may decrease, as closing the old account shortens his average credit history length
(B) His score will improve significantly as he now has fewer open credit lines to manage
(C) His score will remain unchanged because the new auto loan is a more recent account
(D) His score will increase substantially because he has eliminated a line of unsecured credit

Ans :

(A) His score may decrease, as closing the old account shortens his average credit history length
The chapter emphasizes that "The longer the credit history, the better" and "Older accounts are generally better." By closing his 12-year-old account, Mr. Kumar is effectively shortening the average age of his credit accounts and reducing the length of his credit history. This action, despite good intentions, is likely to have a negative impact on his credit score.

May/June 2022

41. Which of the following is NOT one of the four Credit Information Companies (CICs) mentioned as being granted a Certificate of Registration by RBI?
(A) TransUnion CIBIL Limited
(B) Equifax Credit Information Services Private Limited
(C) CRISIL Limited
(D) Experian Credit Information Company of India Private Limited

Ans :

(C) CRISIL Limited
The text explicitly lists the four CICs that have been granted a Certificate of Registration by the RBI. These are TransUnion CIBIL, Equifax, Experian, and CRIF High Mark. CRISIL is a well-known credit rating agency, but it is primarily focused on rating debt instruments and companies, not operating as a consumer credit information company in this context.

Oct/Nov 2023

42. According to Section 17 of the Credit Information Companies (Regulation) Act, 2005, from whom may a CIC seek and obtain credit information?

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new ones can be a negative signal, requiring careful consideration.

Oct/Nov 2017

34. Which of the following is identified as a behavioral warning sign that can negatively impact a credit score?

(A) Frequent and unnecessary shopping for credit
(B) Paying all credit card bills in full each month
(C) Maintaining a healthy mix of secured and unsecured loans
(D) Keeping old and well-maintained credit accounts open for a long time

Ans :

(A) Frequent and unnecessary shopping for credit
The section on "Warning Signs in Credit Score" lists several behavioral patterns of borrowers that can lower their score. Among the first signals mentioned are "Craving for credit" and "Frequent and unnecessary shopping for credit." This behavior suggests a high-risk profile to lenders, indicating potential financial instability or an over-reliance on debt.

May/June 2008

35. The presence of several new accounts or recent requests for loans can be interpreted as a sign of what?

(A) A financially stable and growing individual who has many new investment opportunities
(B) A borrower who is proactively trying to consolidate existing debt in an effective manner
(C) The individual is an "over-hungry borrower" who may be taking on too much risk
(D) A diligent borrower who is carefully comparing different interest rates from various lenders

Ans :

(C) The individual is an "over-hungry borrower" who may be taking on too much risk
The text explicitly lists "Several new accounts or recent requests for loans" as a warning sign. It clarifies that such activity "can be taken as signs of an over-hungry borrower." This suggests to lenders that the individual may be taking on too much debt too quickly, which increases their risk profile and can lead to a lower credit score.

Oct/Nov 2013

36. To overcome the negative impact of warning signs, what is the primary advice given to borrowers?

(A) To apply for more high-value loans to prove their overall creditworthiness to lenders
(B) To close all existing credit accounts and attempt to start over with a fresh history
(C) To formally dispute every single negative entry that appears on their credit report
(D) To maintain strict financial discipline and consistently repay all dues on time

Ans :

(D) To maintain strict financial discipline and consistently repay all dues on time
After listing the warning signs that bring down a credit score, the text provides a solution. It states, "To overcome this, the borrower should maintain financial discipline, repay dues on time and do not over leverage themselves." This fundamental advice focuses on responsible financial behavior as the key to building and maintaining a good credit score.

May/June 2015

37. What is the role of a Credit Information Company (CIC) in the financial ecosystem?

(A) A government body that is authorized to directly provide emergency loans to individuals
(B) A rating agency that is focused exclusively on assessing corporate bonds and company equities
(C) An independent, third-party institution that collects and shares consumer financial data
(D) A subsidiary of a specific bank that is tasked with managing its credit card portfolio

Ans :

(C) An independent, third-party institution that collects and shares consumer financial data
The chapter defines a CIC or Credit Information Company as an "independent third party institution." Its primary function is to collect financial data regarding loans, credit cards, and more about individuals. It then shares this consolidated information with its members, which are typically banks and Non-Banking Financial Institutions, to aid in their credit assessment processes.

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and to price the associated risks correctly, moving beyond traditional, less-structured evaluation methods.

May/June 2005

13. According to a McKinsey study mentioned in the chapter, what was a key characteristic of bankrupt individuals in Hong Kong?

(A) They were found to hold an average of 21 different credit cards from various issuers
(B) Their total outstanding debt was determined to be less than their average monthly income
(C) Their average debt was approximately equivalent to 42 times their monthly income
(D) They had primarily defaulted on large, secured home loans rather than unsecured credit

Ans :

(C) Their average debt was approximately equivalent to 42 times their monthly income
While an excerpt in the chapter mentions an average of 14 cards and $75,000 in debt, a subsequent sentence clarifies the severity of the situation. It states that bankrupt individuals in Hong Kong owed, on average, 42 times their monthly income, highlighting an extreme level of over-indebtedness that contributed to the financial crisis in the retail credit market.

Oct/Nov 2022

14. According to the McKinsey study, what was the consequence of a 90 percent rise in credit card usage in South Korea during 1999–2001?

(A) Delinquent accounts were almost eliminated from the system
(B) Interest rates on all credit cards were subsequently halved
(C) The number of active credit card users decreased significantly
(D) The number of delinquent accounts in the system almost quadrupled

Ans :

(D) The number of delinquent accounts in the system almost quadrupled
The chapter uses the South Korean experience as an example of the risks in a rapidly growing retail credit market. It explicitly states that as credit card usage increased by 90 percent between 1999 and 2001, the number of delinquent accounts saw a nearly fourfold increase, demonstrating a direct correlation between rapid credit expansion and rising defaults.

May/June 2018

15. What is the primary function of a Credit Bureau as described in the text?

(A) To track the indebtedness and detailed repayment history of individual borrowers
(B) To provide personal loans and various credit lines directly to individual borrowers
(C) To set the benchmark lending and interest rates for all member financial institutions
(D) To offer complex financial planning and advisory services to large corporate clients

Ans :

(A) To track the indebtedness and detailed repayment history of individual borrowers
The chapter defines a Credit Bureau's role clearly. It functions to track the indebtedness and repayment history of individuals on loans taken from banks, NBFCs, and other financial institutions. This information, along with personal details, is compiled into a credit information report (CIR) that is made available to its loan-issuing member institutions for their risk assessment.

Oct/Nov 2016

16. How does a Credit Information Report (CIR) help bankers avoid disasters like non-payment of dues?

(A) By legally guaranteeing the full repayment of any loan sanctioned based on the report's data
(B) By providing a comprehensive view of a borrower's total debt and repayment history
(C) By providing direct system access to the borrower's primary bank account for automatic debits
(D) By legally preventing the borrower from applying for any future credit with other lenders

Ans :

(B) By providing a comprehensive view of a borrower's total debt and repayment history
The CIR, provided by a credit bureau, compiles a borrower's complete credit history, including all existing loans and repayment patterns. By using this report, bankers can gain a clear understanding of an applicant's financial discipline and existing liabilities. This comprehensive information

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(A) From its members, i.e., Credit Institutions (CI) only
(B) From any individual or company directly without prior consent
(C) Only from specified central and state government departments
(D) From international credit bureaus without any legal restriction

Ans :

(A) From its members, i.e., Credit Institutions (CI) only
The chapter cites a specific legal provision to define the flow of information. It states that Section 17 of the CIC (Regulation) Act, 2005, stipulates that a Credit Information Company (CIC) is permitted to seek and obtain credit information from its members, which are defined as Credit Institutions (CIs), and only from them.

May/June 2016

43. What is the obligation of Credit Institutions (CIs) with respect to all the CICs in India?
(A) They can choose to become a member of only one preferred CIC for all their reporting
(B) They are only required to submit data to a CIC upon a specific borrower's written request
(C) They must submit data only for high-value commercial loans above a certain threshold
(D) They must become members of all active CICs and submit required data to them

Ans :

(D) They must become members of all active CICs and submit required data to them
The text describes a clear directive from the RBI regarding the participation of Credit Institutions. It states that "All Credit Institutions (CIs) shall become members of all CICs and submit data (including historical data) to them, as per RBI directives." This ensures that all credit bureaus have a comprehensive and consistent dataset from all lenders.

Oct/Nov 2009

44. As per Regulation 10(a) of the Credit Information Companies Regulations, 2006, how frequently should credit information be updated?
(A) Annually on a fixed date for all customers
(B) On a monthly basis or at shorter, mutually agreed intervals
(C) Only when a customer defaults on a scheduled payment
(D) Once every five years, or when a loan is closed

Ans :

(B) On a monthly basis or at shorter, mutually agreed intervals
To ensure the data held by CICs is current, the regulations specify an update frequency. The chapter mentions that CICs and CIs must keep credit information updated regularly "on a monthly basis or at such shorter intervals as may be mutually agreed upon" between the CI and the CIC, as per the specified regulations.

May/June 2023

45. Which of the following is listed as a benefit of using a credit information report for an individual?
(A) It automatically guarantees the approval of any future loan or credit card application
(B) It allows an individual to legally avoid paying all mandatory taxes on their income
(C) It helps in analyzing one's financial standing and planning future finances
(D) It provides automatic and significant discounts on all consumer goods and retail services

Ans :

(C) It helps in analyzing one's financial standing and planning future finances
The chapter outlines several benefits of using a credit report. The first benefit mentioned is that it "helps in analysing your true financial standing and make plans for future finances." By understanding their credit history and score, individuals can make informed decisions about their financial health and future borrowing, helping them to manage their finances proactively.

Oct/Nov 2018

46. How does having a Credit Information Report in hand benefit a borrower when dealing with lenders?
(A) It forces the bank to lend money to the borrower regardless of the associated credit risk
(B) It allows the borrower to legally demand an interest-free loan from any financial institution

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The section on "Trade Attributes" explicitly states that a good mix of credit is beneficial. It further clarifies that "a history of consistent repayment of various types of credit will improve your score." This demonstrates to lenders that the borrower can responsibly manage different forms of financial obligations, such as a mix of secured and unsecured loans.

Oct/Nov 2021

30. Which of the following is listed as an indicator of a good credit score?
(A) A very short credit history that shows no recorded instances of default
(B) Frequent opening of new credit accounts to show strong credit-seeking behavior
(C) Having only one type of credit, such as holding multiple different credit cards
(D) Demonstrated evidence of consistent financial discipline over time

Ans :

(D) Demonstrated evidence of consistent financial discipline over time
The chapter lists several indicators of a good score under the "Positive Side of Credit Score" section. The very first point mentioned is "Evidence of financial discipline." This is a broad characteristic that encompasses timely payments, responsible credit utilization, and overall prudent management of one's financial matters, all of which contribute to a strong credit score.

May/June 2024

31. How are one-off defaults due to reasons beyond the borrower's control typically viewed in an otherwise consistent payment history?
(A) They show up as clear aberrations and do not necessarily ruin an otherwise good score
(B) They are treated as a major red flag, causing a significant and permanent drop in the score
(C) They are ignored completely by all credit scoring models and have absolutely no impact
(D) They automatically lead to the rejection of any and all future loan applications from that person

Ans :

(A) They show up as clear aberrations and do not necessarily ruin an otherwise good score
The text suggests that credit scoring can be nuanced. It states that if a borrower has defaulted once or twice due to reasons beyond their control, these events would "show up as clear aberrations in an overall consistent payment history." This implies that isolated incidents may not be as damaging as a pattern of poor behavior.

Oct/Nov 2008

32. What is the general rule regarding the length of credit history and its impact on a credit score?
(A) The shorter the available credit history, the better the final credit score will be
(B) A longer credit history provides more data, which is better for the lender's assessment
(C) The length of an individual's credit history is completely irrelevant to the score calculation
(D) A credit history that is longer than five years begins to negatively impact the score

Ans :

(B) A longer credit history provides more data, which is better for the lender's assessment
The chapter states a clear principle: "The longer the credit history, the better." A longer history provides a lender with a more extensive track record of the borrower's repayment behavior over bigger spans of time. This increased data improves the lender's assessment and confidence in the borrower's financial discipline, assuming the history is positive.

May/June 2006

33. What cautionary advice is given regarding old and new credit accounts?
(A) One should close all old credit accounts immediately after they have been paid off
(B) One should be judicious and careful about closing old accounts and opening new ones
(C) One should frequently open new accounts to demonstrate strong and active creditworthiness
(D) The age of various credit accounts has no bearing on the final calculation of a credit score

Ans :

(B) One should be judicious and careful about closing old accounts and opening new ones
The text provides specific advice on managing the length of credit history. It states that older accounts are generally better and that "One should be judicious about closing old accounts and opening new ones." Closing old accounts can shorten the credit history, and opening too many

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(A) 1 and 2 only
The chapter lists avoiding over-leveraging as a factor for a favourable score and defaulting on credit card bills (late payments) as a factor for a negative score. However, it lists "Too many forms of credit (such as unsecured personal loans) among family members" as a factor leading to a favourable score, which is incorrect; high unsecured debt is a negative factor.

May/June 2019

51. The act of defaulting as a guarantor for a loan will have what effect on one's credit score?
(A) It will have no effect whatsoever on the guarantor's personal credit score
(B) It will have a positive effect, as it shows a willingness to help others financially
(C) It will have a direct and negative effect on the guarantor's credit score
(D) The effect is neutral, but the event is noted on the report for informational purposes only

Ans :

(C) It will have a direct and negative effect on the guarantor's credit score
The text lists "Defaulting as a guarantor" as one of the factors leading to a negative credit score. When an individual acts as a guarantor, they are legally liable for the debt if the primary borrower fails to pay. A default is therefore recorded on the guarantor's credit history as well, negatively impacting their own creditworthiness.

Oct/Nov 2006

52. How can non-payment of utility bills affect a credit score?
(A) It has no bearing on a score, as utility companies are not classified as financial institutions
(B) It only affects the ability to get a new utility connection, not a financial loan application
(C) It is only recorded if the non-payment continues for an uninterrupted period of one year
(D) It can have a negative bearing, as utility companies may report delinquent accounts to CICs

Ans :

(D) It can have a negative bearing, as utility companies may report delinquent accounts to CICs
The chapter expands the scope of factors affecting credit scores beyond just loans and credit cards. It explicitly states, "Non-payment of utility bills may also have negative bearing on credit score," and adds that "Utility companies report delinquent account to CICs very fast." This highlights the increasing integration of different payment data into credit reporting.

May/June 2021

53. According to the official CIBIL website statistics mentioned in the text, what is the approximate approval rate for loan applicants with a CIBIL score greater than 700?
(A) About 50%
(B) About 70%
(C) About 90%
(D) About 80%

Ans :

(C) About 90%
To illustrate the advantage of maintaining a high credit score, the chapter provides a specific data point. It states, "According to the official CIBIL website, about 90% of loan applicants with CIBIL score greater than 700 are approved for loans." This statistic powerfully demonstrates the strong correlation between a high score and loan approval.

Oct/Nov 2010

54. Which of the following is listed as an advantage of maintaining a high credit score?
(A) An automatic waiver of all future interest payments on existing loans
(B) Quick processing of loan and credit card applications
(C) A complete exemption from all RBI regulations on personal lending
(D) The ability to borrow an unlimited amount of money from any bank

Ans :

(B) Quick processing of loan and credit card applications
The chapter details several benefits of a high credit score. Among them is the "Quick processing of loan and credit card applications." Lenders can make faster, more confident decisions for applicants with a proven track record of creditworthiness, as indicated by a high score, thus speeding up the entire approval and disbursal process.

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(B) Operating Risk - Processing failures and frauds

The chapter provides a clear list matching risks to their triggers. Operating Risk is correctly paired with "Processing failures and frauds." The other options are mismatched: Credit Risk is when a customer fails to pay, Business Risk is from a wrong strategy, and Market Risk is from changes in market prices.

May/June 2011

81. A person who constantly applies for new credit cards and personal loans, even if not needed, is exhibiting a behavior described as:

(A) Debt consolidation
(B) Being over-hungry for loans
(C) Smart financial planning
(D) Credit diversification

Ans :

(B) Being over-hungry for loans

The text uses specific phrasing to describe this high-risk behavior. Frequent and unnecessary applications for credit are seen as an "indicator of being over-hungry for loans," which can negatively impact the credit score. This behavior signals potential financial distress or a lack of discipline to lenders, making the applicant appear riskier.

Oct/Nov 2020

82. Which of the following statements about credit scoring models is incorrect?

(A) A lower score refers to a lower probability of default.
(B) It is a mathematical model used to estimate the probability of default.
(C) It can be used to quantify risk in a subjective process.
(D) The probability of default is normally presented as a credit score.

Ans :

(A) A lower score refers to a lower probability of default.

The chapter establishes an inverse relationship. It clearly states, "The higher score refers to a lower probability of default and vice versa." Therefore, the statement that a lower score refers to a lower probability of default is incorrect. A lower score signifies a higher risk and a greater likelihood of default.

NODIA

May/June 2022

83. The process of a CIC collecting financial data about individuals and sharing it with its member institutions is designed to primarily benefit:

(A) The government in tracking income for more efficient tax collection.
(B) The individual by providing personalized investment advice and tips.
(C) The member institutions in making informed lending decisions.
(D) The CIC by earning high interest rates on the financial data it holds.

Ans :

(C) The member institutions in making informed lending decisions.

The fundamental purpose of a CIC is to serve its members. By collecting, aggregating, and providing comprehensive credit information reports, the CIC enables its members (banks and NBFCs) to assess borrower risk more accurately. This helps them avoid potential defaults and make sound, data-driven decisions on whether to extend credit and at what terms.

Oct/Nov 2023

84. Consider the following actions:

1. Paying loan EMIs on time.
2. Avoiding over-leveraging.
3. Defaulting as a guarantor.
4. High utilization of approved credit limit.

Which of these actions lead to a favorable credit score?

(A) 3 and 4 only
(B) 1, 2, and 3 only
(C) 2, 3, and 4 only
(D) 1 and 2 only

Ans :

(D) 1 and 2 only

The chapter lists factors for both favorable and negative scores. Paying EMIs on time and avoiding over-leveraging are explicitly mentioned as leading to a favorable score. In contrast, defaulting as a guarantor and high utilization of credit limits are listed as factors that lead to a negative credit score.

May/June 2016

85. What does the passage, which describes identity theft ranging from a "petty shopkeeper" to a "terrorist," primarily illustrate?

May/June 2014

59. Which of the following is described as a common mistake in the credit scoring process that can lead to an incorrect score?
(A) The bank offering a lower interest rate on a loan than its primary competitors
(B) The borrower successfully paying off a loan well ahead of its scheduled tenure
(C) The borrower possessing a very long and overwhelmingly positive credit history
(D) A confusion of similar names within the CIC's extensive database

Ans :

(D) A confusion of similar names within the CIC's extensive database
The chapter discusses common mistakes that can negatively affect a credit score. The first one mentioned is "Confusion of Names." It explains that with lakhs of similar names in the database, it is possible for the defaults of another person with a similar name to be incorrectly recorded in an individual's file, leading to an erroneous score.

Oct/Nov 2007

60. What is "Human Input Error" in the context of credit scoring mistakes?
(A) An error made by the borrower when they incorrectly fill out the loan application form
(B) An erroneous data entry made by a bank employee while reporting data to a CIC
(C) A system glitch in the CIC's proprietary software during the score calculation process
(D) An error made by the RBI in its published regulatory guidelines for consumer lending

Ans :

(B) An erroneous data entry made by a bank employee while reporting data to a CIC
The text defines "Human Input Error" as a specific type of mistake. It clarifies that "The information that goes from the banks to the CIC on a default may have been erroneous due to simple input error by one of the bank employees." This highlights the importance of data accuracy at the source (the lending institution).

May/June 2025

61. What is described as the "most serious of all causes of errors" in a credit profile?
(A) Confusion of Names
(B) Human Input Error
(C) Identity Theft
(D) A delayed report from the bank

Ans :

(C) Identity Theft
While all errors are problematic, the chapter singles out one as being particularly severe. It states that "Identity Theft... is the most serious of all causes of errors and can have a disastrous impact on a person's credit profile." This is because it involves fraudulent activity that can lead to significant, unauthorized debt being linked to the victim.

NODIA

Oct/Nov 2019

62. An individual's loan application is rejected due to a poor credit score. The individual has a perfect repayment history and suspects an error, possibly due to their common name, "Rajesh Kumar." What is the most likely type of mistake that occurred?
(A) Identity Theft
(B) Human Input Error
(C) Over-leveraging
(D) Confusion of Names

Ans :

(D) Confusion of Names
The scenario points to a situation where an individual with a good history receives a bad score. The clue of having a very common name strongly suggests the "Confusion of Names" error described in the text. This happens when the negative credit information of another person with a similar name is mistakenly merged into the individual's credit file.

May/June 2009

63. Identify the incorrect statement regarding factors that can negatively affect a credit score.
(A) Maintaining strong financial records over a long period
(B) High utilization of the approved credit limit or overshooting it consistently
(C) Defaulting on a loan for which you are a guarantor for another person
(D) Multiple applications for unsecured loans getting rejected by different banks

Ans :

(A) Maintaining strong financial records over a long period
The chapter lists high credit utilization, defaulting as a guarantor, and having multiple

i. Irregular loan repayments.
ii. Paying credit card bills in full every month.
iii. Cheque bounces or dishonours.
iv. Multiple applications for unsecured loans being rejected.

(A) (i), (ii), and (iii) are correct.
(B) (ii), (iii), and (iv) are correct.
(C) (i), (iii), and (iv) are correct.
(D) (i), (ii), and (iv) are correct.

Ans :

(C) (i), (iii), and (iv) are correct.
The chapter lists several factors that lead to a negative score. These include irregular loan repayments, cheque bounces/dishonours, and multiple rejected applications for unsecured loans. Paying credit card bills in full every month is a positive factor that improves a score, so it does not belong with the negative factors.

Oct/Nov 2025

90. The concept that risk is embedded in every action and inaction and the best way to counter it is to manage it professionally, is attributed to whom?
(A) Alan Greenspan
(B) The Reserve Bank of India
(C) The Government of India
(D) The CEO of CIBIL

Ans :

(A) Alan Greenspan
The introductory section of the chapter opens with a quote to set the context for risk in banking. The quote, which emphasizes the necessity of risk-taking for banks, is attributed to "Alan Greenspan, President, Federal Reserve Board, New York (May 1996)." This highlights the fundamental banking principle of managing, not eliminating, risk.

May/June 2012

91. The ability to negotiate or waive processing fees and choose prepayment options, though not guaranteed, is an advantage of what?
(A) Having a very low credit score
(B) Having no prior credit history
(C) Applying for a loan through a third-party agent
(D) Maintaining a high credit score

Ans :

(D) Maintaining a high credit score
The chapter lists several advantages of a high credit score. One of these is the "possibility of negotiating or waiving processing fees as well as choosing prepayment options." While not guaranteed, a strong credit profile gives the borrower leverage to ask for more favorable terms beyond just the interest rate, making them a more attractive customer.

Oct/Nov 2014

92. Identify the incorrect pair regarding the steps for troubleshooting a credit score.
(A) Step 1: Contact the bank that declined the application.
(B) Step 4: Immediately file a legal case against the CIC.
(C) Step 2: Request the control number from the bank.
(D) Step 3: Use the CIC website for dispute resolution.

Ans :

(B) Step 4: Immediately file a legal case against the CIC.
The chapter outlines a clear, non-litigious process. The steps involve contacting the bank, getting the control number, and then using the CIC's own online portal for dispute resolution. Filing a legal case is not mentioned as an immediate or recommended step in the standard troubleshooting process described in the text.

May/June 2019

93. What is the primary negative consequence of a "Confusion of Names" error in a credit report?
(A) The individual's full name might be misspelled on their physical credit card from the bank
(B) The individual will begin to receive marketing phone calls intended for someone else
(C) The defaults of another person with a similar name are incorrectly recorded in the individual's file
(D) The bank may use the wrong first name in its official loan correspondence with the individual

Ans :

(C) The defaults of another person with a similar name are incorrectly recorded in the individual's file
The chapter explains this specific mistake clearly. It states that "Things can go haywire if a person

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Ans :

(C) The unique control number that was generated for the specific credit report used
The troubleshooting guide emphasizes the importance of a specific piece of data. The individual should request the bank to provide the "control number" for their credit report. This number is essential for tracking the specific report the bank used and is required by the CIC to investigate the dispute accurately and view the exact details seen by the bank.

Oct/Nov 2005

68. What is the "control number" in the context of a credit report?
(A) The borrower's primary loan account number assigned by the lending financial institution
(B) The bank's internal customer identification number used for all of their internal records
(C) The secure, one-time password required to access the CIC's website for dispute services
(D) A unique nine-digit number used to track a specific credit report from a CIC's database

Ans :

(D) A unique nine-digit number used to track a specific credit report from a CIC's database
The chapter provides a precise definition. The control number is a "nine-digit unique number that helps to track an individual's credit report from CIC's database." It is generated every time a bank or credit institution pulls a credit report on an individual, serving as a unique identifier for that specific inquiry and the report generated.

May/June 2020

69. Why does a CIC require the control number when a consumer raises a dispute?
(A) To verify the consumer's full identity and permanent address for their internal records
(B) To charge a specific, non-refundable fee for the dispute resolution service to the consumer
(C) To retrieve and view the exact details that the bank saw in that specific report
(D) To automatically approve the consumer's next loan application as a corrective action

Ans :

(C) To retrieve and view the exact details that the bank saw in that specific report
The purpose of the control number is to ensure that both the consumer and the CIC are referencing the exact same information. The text states, "CIC requires this number because it enables them to view the exact details that the bank has seen when they drew a report on you," which is crucial for accurately investigating the dispute.

Oct/Nov 2015

70. Where can an individual find provisions for resolving disputes related to their credit report?
(A) In the original loan agreement signed with their primary bank
(B) On the websites of the respective Credit Information Companies (CICs)
(C) On the official public website of the Reserve Bank of India
(D) In the published annual report of the bank that pulled the credit score

Ans :

(B) On the websites of the respective Credit Information Companies (CICs)
The chapter guides the user on the dispute resolution process. After contacting the bank, the text mentions that "Provisions are available in the website of the CICs for resolving disputes." This indicates that the CICs themselves provide the platform and procedures for individuals to formally report and seek correction of errors in their credit information.

May/June 2013

71. According to the "Let Us Sum Up" section, what is the observed credit score cut-off above which most banks lend to consumers?
(A) 500
(B) 600
(C) 800
(D) 700

Ans :

(D) 700
The summary section provides a practical observation about lending practices in India. It states that "While each bank has its own credit scoring cut-off, it has been observed that most banks lend to consumers with a Credit Score of 700 and above." This reiterates the importance of the 700-score mark as a common benchmark for creditworthiness.

NODIA

Oct/Nov 2021

72. What is the highest possible credit score that can be assigned by a CIC, as mentioned in the summary?
(A) 900
(B) 800
(C) 850
(D) 1000

Ans :

(A) 900
The summary section re-confirms the credit score range discussed earlier in the chapter. It explicitly states, "The highest credit score that can be assigned by CIC is 900." This defines the upper limit of the standard 300-900 scale used for credit scoring in India, representing the lowest possible risk profile for a borrower.

May/June 2024

73. Which of the following is considered the MOST important factor in credit score calculation, according to the chapter's summary?
(A) The total number of credit enquiries made in the last six months
(B) The proportion of unsecured loans versus secured loans in the portfolio
(C) Past performance on servicing loans and making timely payments
(D) The overall length of the individual's credit history in years

Ans :

(C) Past performance on servicing loans and making timely payments
The summary section synthesizes the various factors and highlights a primary one. It states, "Past performance on servicing loans and making credit card payments on time is considered the most important factor." This emphasizes that a consistent and timely payment history holds the highest weightage in determining an individual's credit score, above all other considerations.

Oct/Nov 2008

74. What is the credit card utilisation ratio?
(A) The aggregate outstanding balance on all cards as a percentage of the total available card limits
(B) The total number of active credit cards that an individual currently holds in their name
(C) The total percentage of monthly income that is spent via credit cards for all purchases
(D) The ratio of domestic currency transactions to international currency transactions on a card

Ans :

(A) The aggregate outstanding balance on all cards as a percentage of the total available card limits
The chapter defines this critical factor clearly. The credit card utilisation ratio is the "aggregate outstanding balance on all cards as a percentage of the aggregate of all card limits." A high ratio indicates that the person is using a large portion of their available credit, which increases their credit exposure and can negatively impact their score.

May/June 2006

75. How does a higher proportion of unsecured loans (like personal loans) in a portfolio generally affect the credit score?
(A) It improves the score, as it shows the person is trusted by many different lenders
(B) It has a completely neutral and insignificant impact on the overall credit score
(C) It only affects the score if the loans are taken from multiple different banking institutions
(D) It is considered a risk factor and can lead to a worse score

Ans :

(D) It is considered a risk factor and can lead to a worse score
The summary section explains the impact of the credit mix. It states, "The higher the proportion of unsecured loans (such as personal loans) in the portfolio... the worse it is for the score." Unsecured loans are considered riskier by lenders since they are not backed by collateral, so a heavy reliance on them is a negative indicator.

Oct/Nov 2017

76. According to the factors considered by Equifax mentioned in the text, which of the following is NOT listed?
(A) Length of the credit history
(B) The borrower's annual income
(C) Credit mix
(D) The number of credit enquiries

Ans :

(B) The borrower's annual income

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The text specifically mentions the factors considered by Equifax towards the end of the summary. It states, "The length of the credit history, credit mix and the number of credit enquiries are the other factors considered by Equifax." The borrower's annual income, while crucial for the bank's overall assessment, is not listed as a direct input factor for the score calculation.

May/June 2008

77. Mr. Verma co-signed a car loan for his nephew. For the first year, all EMIs were paid on time. However, his nephew then lost his job and defaulted on three consecutive payments. What is the direct consequence for Mr. Verma's credit report?

(A) There is no consequence for Mr. Verma, as he is only the guarantor, not the borrower
(B) He will receive a positive note on his report for having helped a family member obtain a loan
(C) A negative entry for the defaults will appear on his credit report, lowering his score
(D) His report will show an inquiry for the loan but no subsequent default-related information

Ans :

(C) A negative entry for the defaults will appear on his credit report, lowering his score
The chapter clearly lists "Defaulting as a guarantor" as a factor leading to a negative credit score. As a guarantor, Mr. Verma is equally liable for the debt. The lender will report the delinquency to the CICs for both the primary borrower and the guarantor, resulting in a lower credit score for Mr. Verma.

Oct/Nov 2013

78. Which of the following is an example of a "Trade Attribute" that would positively influence a credit score?

(A) Having all credit lines as unsecured credit cards that were opened within the last year
(B) Having no credit history at all, which indicates no prior problems with managing debt
(C) Frequently closing old accounts and opening new ones to keep the credit portfolio fresh
(D) A healthy mix of a long-standing home loan and a well-managed credit card

Ans :

(D) A healthy mix of a long-standing home loan and a well-managed credit card
"Trade Attributes" refers to the age and mix of credit. The text suggests a good mix and longer history are beneficial. A combination of a secured loan (home loan) with a long history and a revolving credit line (credit card) that is well-managed demonstrates the ability to handle different types of financial obligations responsibly, which is a positive signal.

May/June 2015

79. What is the primary reason that a longer credit history is considered better for a credit score?

(A) It allows for a more detailed and reliable understanding of the applicant's long-term payment behaviour
(B) It shows the borrower is older and therefore is automatically assumed to be more responsible
(C) It indicates that the borrower must have a higher income to sustain credit for such a long time
(D) It automatically qualifies the borrower for the lowest possible interest rates from all lenders

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Ans :

(A) It allows for a more detailed and reliable understanding of the applicant's long-term payment behaviour
The text links a longer history to better assessment. It states, "A longer credit history allows a more detailed understanding of the applicant's payment behaviour." A lengthy track record provides more data points for a lender to analyze, increasing their confidence in the borrower's consistency and financial discipline, assuming the payment history is positive.

Oct/Nov 2012

80. Identify the correct pair from the following options.

(A) Credit Risk - Losing money due to wrong strategy
(B) Operating Risk - Processing failures and frauds
(C) Market Risk - Customer fails to pay
(D) Business Risk - Change in market prices

Ans :

May/June 2005

55. Ms. Anjali has a CIBIL score of 790 and is applying for a home loan. The bank has offered her a standard interest rate and a fixed processing fee. Given her strong financial standing as indicated by her score, what is a likely, though not guaranteed, outcome she might achieve through negotiation?

(A) The bank will be legally obligated to provide her with an entirely interest-free home loan
(B) The bank will offer an additional unsecured personal loan based on an automatic pre-approval
(C) The bank will be required to offer double the loan amount she had originally applied for
(D) She might successfully negotiate for a lower interest rate or a complete waiver of the processing fee

Ans :

(D) She might successfully negotiate for a lower interest rate or a complete waiver of the processing fee
A high credit score provides negotiation leverage. The text mentions "Ability to negotiate interest rates, owing to your strong financial standing" and "Though not guaranteed, the possibility of negotiating or waiving processing fees" as advantages. Ms. Anjali's score of 790 puts her in a strong position to ask for these concessions from the bank.

Oct/Nov 2022

56. What is the primary role of credit scoring for banks in the context of risk assessment?

(A) It acts as a key enabler for banks to make a call on risk assessment and loan pricing
(B) It completely replaces the need for any form of human judgment in risk assessment
(C) It is a tool used exclusively for the post-disbursement monitoring of existing loans
(D) It is used primarily to assess broad market risk, not individual customer credit risk

Ans :

(A) It acts as a key enabler for banks to make a call on risk assessment and loan pricing
The text describes credit scoring as a crucial tool for lenders. It is an "enabler for banks to take a call on the risk assessment based on the score and accordingly decide at the price for the risk." This means the score helps the bank quantify the risk and then price the loan (i.e., set the interest rate) appropriately.

May/June 2018

57. How does the presence of a credit information report system benefit responsible customers?

(A) They are fully exempted from providing any form of documentation for all future loans
(B) Their loan applications are automatically approved by the system without any human verification
(C) They can expect faster service and more competitive terms, including better rates
(D) They receive a direct monthly cash-back bonus from the Credit Information Companies

Ans :

(C) They can expect faster service and more competitive terms, including better rates
The system rewards good financial behavior. The chapter states that "With a credit information report in place, responsible customers can expect faster and more competitive services at better terms and rates from banks and other credit companies." Their proven creditworthiness makes them attractive, low-risk clients, leading to preferential treatment in the market.

Oct/Nov 2016

58. If a person finds an error in their credit report issued by a CIC, what is the recommended course of action?

(A) Notify both the concerned bank and the relevant CIC regarding the specific error
(B) Ignore the error, as it will likely be corrected automatically in the next update cycle
(C) File a lawsuit against the Credit Information Company immediately to claim damages
(D) Immediately close the credit account that is associated with the erroneous information

Ans :

(A) Notify both the concerned bank and the relevant CIC regarding the specific error
The chapter outlines the process for addressing inaccuracies. It states that a person can go through their report, and "if any errors found, they can notify the bank and CIC regarding the same." This initiates a dispute resolution process to investigate and correct the mistake, ensuring the credit report accurately reflects their financial history.

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(A) The general inefficiency of modern credit card payment systems
(B) The common data entry mistakes made by bank employees
(C) The wide range and serious nature of identity theft
(D) The official government process for resolving credit report disputes

Ans :

(C) The wide range and serious nature of identity theft
The passage provides diverse examples, from a small-scale "petty shopkeeper" to a large-scale "terrorist," to demonstrate the broad spectrum of identity theft. By using these contrasting scenarios, the text emphasizes that identity theft is a pervasive and serious crime with potentially disastrous consequences, highlighting its severity as a cause of credit report errors.

Oct/Nov 2009

86. An individual has a short credit history of just one year, consisting of a single personal loan. Their income-to-debt ratio is healthy. However, their credit score is lower than expected. What is the most likely reason for the lower score, based on the chapter's summary?
(A) The income-to-debt ratio is the single most important factor that truly matters
(B) A shorter length of credit history is generally considered worse for the score
(C) The personal loan is an unsecured loan, which is always viewed in a positive light
(D) The bank must have made a human input error when reporting the payment data

Ans :

(B) A shorter length of credit history is generally considered worse for the score
The summary section explicitly states that a "shorter the length of the individual's credit history... the worse it is for the score." Even with a good income-to-debt ratio, a short history provides lenders with very limited data to assess long-term repayment behavior, making the applicant appear riskier compared to someone with a longer, proven track record.

May/June 2023

87. What is a key reason for the introduction of a centralized database for credit scoring?
(A) To prevent borrowers from ever taking out new loans from more than one banking institution
(B) To significantly increase the required processing time and paperwork for all loan applications
(C) To ensure that all borrowers across the system are charged the exact same rate of interest
(D) To allow borrowers to avail credit from different banks based on their needs

Ans :

(D) To allow borrowers to avail credit from different banks based on their needs
The text explains that borrowers may seek different products from various banks due to needs, pricing, or speed. It was felt that a "centralized database for arriving at the credit score will be an effective risk mitigation step." This allows any lender to see the borrower's full credit exposure, regardless of where they have borrowed from.

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Oct/Nov 2018

88. In the evolution of retail banking in India, the expansion of lending from the affluent to lower-income groups created a need for what?
(A) A sophisticated method to accurately assess repayment ability and price loans correctly
(B) Substantially higher and non-negotiable interest rates for all types of retail customers
(C) More physical bank branches to be constructed in remote and previously unbanked rural areas
(D) A significant and permanent reduction in the variety of loan products being offered to the public

Ans :

(A) A sophisticated method to accurately assess repayment ability and price loans correctly
The chapter describes that as banks started lending to lower-income groups to chase growth, they faced a new challenge. This expansion called for "sophistication to accurately assess borrowers' ability to repay and, also, to correctly price the loan." This need for better risk assessment tools was a key driver for adopting credit scoring.

May/June 2007

89. Which of the following is a 4-statement combination question regarding factors that negatively impact a credit score?

rejected loan applications as factors that lead to a negative score. Conversely, "Maintaining strong financial records" is explicitly mentioned as a factor that leads to a favourable credit score, as it demonstrates a consistent and positive payment history to lenders.

Oct/Nov 2011

64. What is the primary implication of the statement that mistakes in credit scoring can occur and be a detriment if not corrected?

(A) Mistakes in credit scoring are extremely rare and have only minor effects on loans
(B) Individuals should proactively check their credit reports and correct them to avoid future issues
(C) Banks are solely responsible for all mistakes and must automatically compensate the borrower
(D) Once a mistake has been officially recorded in a report, it can never be corrected

Ans :

(B) Individuals should proactively check their credit reports and correct them to avoid future issues

The source text emphasizes that mistakes can happen and that failure to correct them can be detrimental. This implies a need for action on the part of the individual. The logical conclusion is that borrowers must be vigilant, review their credit information, and take the necessary steps to get any inaccuracies corrected to protect their financial future.

May/June 2010

65. Match the mistake in credit scoring with its description.

List-I (Type of Mistake)
P. Confusion of Names
Q. Human Input Error
R. Identity Theft

List-II (Description)
1. Erroneous information sent from a bank due to a data entry mistake.
2. Fraudulent use of personal information to access credit.
3. Defaults of another person with a similar name recorded in your file.

(A) P-3, Q-1, R-2
(B) P-2, Q-3, R-1
(C) P-1, Q-2, R-3
(D) P-3, Q-2, R-1

Ans :

(A) P-3, Q-1, R-2

The chapter provides clear descriptions for each type of mistake. "Confusion of Names" is when another person's defaults are recorded in your file. "Human Input Error" is an error originating from a bank employee's data entry. "Identity Theft" is the fraudulent use of someone's details, described as the most serious cause of errors.

Oct/Nov 2024

66. Mrs. Gupta's credit card application was declined by a bank, citing a poor credit score. She is confident that her score should be good and suspects an error in her credit report. According to the troubleshooting steps, what is the very first action she should take?

(A) Contact the bank that declined the application to ask for specific clarification
(B) Immediately contact the CIC's customer service and file a formal dispute online
(C) Apply for a different type of credit card or loan from a completely different bank
(D) Hire a lawyer to sue the bank for defamation and significant financial damages

Ans :

(A) Contact the bank that declined the application to ask for specific clarification

The text outlines a clear, sequential process for troubleshooting. Step 'a' explicitly states the first action is to "Contact the bank that declined a credit card or loan application on the basis of your poor credit score." This is to get clarification and, crucially, to request the control number of the credit report used for the decision.

May/June 2017

67. When troubleshooting a poor credit score, what key piece of information should an individual request from the bank that rejected their application?

(A) The name and contact details of the specific loan officer who made the decision
(B) A complete copy of the bank's internal credit policy and risk assessment document
(C) The unique control number that was generated for the specific credit report used
(D) The bank's most recent audited quarterly profit and loss financial statement

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with your name has defaulted and all his defaults get recorded in your file." This means an innocent individual's credit score can be wrongly damaged due to the negative financial actions of a different person with a similar name.

Oct/Nov 2006

94. The shift in retail banking from lending to the "rich and affluent" to "lower income groups" necessitated the use of credit scoring for what primary purpose?

(A) To increase the overall profit margins made on loans to lower-income group customers

(B) To comply with a new government mandate requiring banks to lend only to lower-income groups

(C) To simplify the loan application process by removing all documentation and verification requirements

(D) To accurately assess risk and correctly price loans for this new customer segment

Ans :

(D) To accurately assess risk and correctly price loans for this new customer segment

The expansion into a new, potentially riskier customer segment required better tools. The text states that lending to lower-income groups "calls for sophistication to accurately assess borrowers' ability to repay and, also, to correctly price the loan." Credit scoring provided the necessary data-driven, objective mechanism to manage this expansion effectively and mitigate potential losses.

May/June 2021

95. Which of the following is a correct statement regarding the credit score range and its meaning?

(A) The score ranges from 300 to 900, with a higher score being better.

(B) A score of 850 indicates a higher level of risk than a score of 650.

(C) A score of 350 indicates a lower probability of default than a score of 750.

(D) A score of 900 is considered average, while a score of 300 is considered excellent.

Ans :

(A) The score ranges from 300 to 900, with a higher score being better.

The chapter specifies that credit scores range from 300 to 900. It also clarifies the relationship between the score and risk, stating that a higher score refers to a lower probability of default. Therefore, a higher score is better, and 900 represents the best possible score, indicating the lowest risk level.

Oct/Nov 2010

96. A credit score is described as a "snapshot" of a consumer's credit report. What does this imply?

(A) It provides a detailed, page-by-page transcript of every single past financial transaction

(B) It converts complex credit report information into a single, representative number

(C) It is a literal photograph of the consumer taken at the time of their most recent loan application

(D) It is only considered valid for a single 24-hour period before it becomes completely outdated

Ans :

(B) It converts complex credit report information into a single, representative number

The term "snapshot" is used metaphorically. It means the credit score takes all the detailed information from a consumer's credit report (payment history, debts, etc.) and, through advanced analytics, condenses it into a single, easy-to-understand 3-digit number. This number represents the consumer's creditworthiness at that point in time, simplifying a complex financial history.

May/June 2005

97. What is the primary risk associated with a high "credit card utilisation ratio"?

(A) It shows the cardholder is not using the issuing bank's services and products enough

(B) It negatively impacts the income-to-debt ratio and increases overall credit exposure

(C) It can cause the physical credit card to wear out and break much more quickly over time

(D) It indicates that the cardholder has too much unused credit currently available to them

Ans :

(B) It negatively impacts the income-to-debt ratio and increases overall credit exposure

The chapter explains that high credit utilisation is a critical factor because it increases a person's credit exposure. This, in turn, "impacts the income-to-debt ratio, one of the important criterion for assessing loan applications." A high

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the account.
(C) A letter of intent from the firm and the individual PAN cards of all the partners involved.
(D) The firm's registration, partnership deed, PAN card, and OVDs for all partners.

Ans :

(D) The firm's registration, partnership deed, PAN card, and OVDs for all partners.
To open a current account for a partnership firm, a comprehensive set of documents is required. This includes one certified copy of the Registration certificate (if registered) and the Partnership deed. Additionally, the PAN card of the firm and Officially Valid Documents (OVDs) for all partners, as per KYC master directions, must be obtained by the bank.

Oct/Nov 2022

15. For opening a current account for a Limited Liability Partnership (LLP), which of the following is NOT a required document?
(A) Memorandum of Association
(B) Certificate of Incorporation
(C) PAN Card of the LLP firm
(D) OVD of the designated partners

Ans :

(A) Memorandum of Association
The required documents for an LLP current account include the Certificate of Incorporation, a copy of the Resolution to open the account, the PAN card of the LLP, and Officially Valid Documents (OVDs) of the designated partners. Memorandum of Association and Articles of Association are documents associated with Limited Companies, not Limited Liability Partnerships.

May/June 2025

16. What documentation is required to open a current account for a public limited company, in addition to what is needed for a private limited company?
(A) A resolution from the Board of Directors
(B) Certificate of Commencement of Business
(C) The PAN Card of the entity
(D) The Memorandum and Articles of Association

Ans :

(B) Certificate of Commencement of Business
For all limited companies, documents like the Certificate of Incorporation, Memorandum & Articles of Association, a Board Resolution, and the entity's PAN card are required. However, for public limited companies specifically, the bank must also obtain a certified copy of the Certificate of Commencement of Business, which is not required for private limited companies.

Oct/Nov 2019

17. Based on the Supreme Court judgment in National Legal Services Authority v. Union of India, what action were banks advised to take by the RBI regarding gender classification?
(A) Remove all gender classification from application forms.
(B) Include 'third gender' in all forms and applications.
(C) Introduce separate forms for transgender persons.
(D) Require a court order for 'third gender' classification.

Ans :

(B) Include 'third gender' in all forms and applications.
Following the Supreme Court's judgment dated April 15, 2014, which recognized transgender persons as the 'third gender', the RBI advised banks to update their documentation. Banks were instructed to include a 'third gender' option in all their forms, applications, and any other documents where gender classification is envisaged, ensuring inclusivity for all individuals.

May/June 2009

18. Which of the following points must be kept in mind while opening a current account?
1. Cheques may be accepted along with cash for the initial deposit.
2. A cheque drawn on the party's own account with another bank can be accepted as an initial deposit.
3. Abundant care must be taken if the initial deposit is a demand draft.

(A) All (1), (2), and (3)
(B) Only (1) and (2)
(C) Only (2) and (3)
(D) Only (1) and (3)

Ans :

(A) All (1), (2), and (3)

NODIA

CHAPTER 8

Important Retail Liability Products

Oct/Nov 2010

1. What is the alternative term used for Retail Banking?
(A) Corporate Banking
(B) Consumer Banking
(C) Wholesale Banking
(D) Investment Banking

Ans :

(B) Consumer Banking
Retail Banking is also known as Consumer Banking. It refers to the provision of banking services to individual retail customers and small enterprises, covering personal accounts, savings, loans, and online services. This form of banking focuses on the general population rather than large or multinational institutions, meeting their day-to-day financial needs through various products and services.

May/June 2018

2. In the context of a bank's balance sheet, which of the following are considered liability products?
(A) Fixed, current, and savings accounts
(B) Mortgages, personal loans, and auto loans
(C) Credit cards and depository services
(D) Educational loans and housing loans

Ans :

(A) Fixed, current, and savings accounts
In retail banking, a bank's balance sheet is divided into assets and liabilities. Deposits accepted from the public, such as fixed, current, and savings accounts, are considered liabilities for the bank. This is because the bank is obligated to repay this money to the depositors and also pays interest on these funds, making it a liability.

Oct/Nov 2024

3. What is the primary function of banks that involves accepting deposits and lending them to the enterprise class?
(A) Disintermediation
(B) Securitization
(C) Intermediation
(D) Mobilisation

Ans :

(C) Intermediation
Intermediation is the primary function of banks. This process involves the mobilisation of deposits from the public and lending these funds to the enterprise class engaged in productive activities. The deposited money is a liability for the bank, on which it pays interest, while the loans given out become an asset for the bank, earning it interest.

May/June 2007

4. Which of the following are the three basic concerns of savers when choosing a savings product?
(A) Risk, liquidity, and accessibility
(B) Profitability, security, and convenience
(C) Growth, stability, and tax benefits
(D) Safety, liquidity, and returns

Ans :

(D) Safety, liquidity, and returns
Banks mobilise community savings by offering products that address the primary concerns of savers. These fundamental concerns are safety, ensuring the principal amount is secure; liquidity, allowing easy access to funds when needed; and returns, which refers to the interest or profit earned on the savings. Banks are considered the safest institutions for mobilising savings.

Oct/Nov 2016

5. Which of the following deposit types are collectively known as CASA Deposits?
(A) Current Accounts and Recurring Deposits
(B) Savings Accounts and Fixed Deposits
(C) Current Accounts and Savings Accounts
(D) Term Deposits and Recurring Deposits

Ans :

(C) Current Accounts and Savings Accounts
CASA is an acronym for Current Account Savings Account. These are demand deposits, which are payable on demand. Banks seek to increase their

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(D) ₹75,000; not applicable for all literate minors.

Ans :

(B) ₹1,00,000; not applicable for minors 14 years and above.
For a savings account operated solely by a minor, the maximum credit balance should not exceed ₹1,00,000 at any point in time. However, this restriction on the maximum balance is waived for accounts of minors who are 14 years of age and above, allowing them to hold higher balances without a specific limit.

Oct/Nov 2013

33. What is the bank's policy regarding the grant of an overdraft facility in a minor's savings account?
(A) It can be granted with the guardian's consent.
(B) It is strictly prohibited, whether held singly or jointly with a guardian.
(C) It is allowed up to a small, pre-defined limit.
(D) It can be granted only if the minor is above 14 years of age.

Ans :

(B) It is strictly prohibited, whether held singly or jointly with a guardian.
Banks are explicitly forbidden from granting any overdraft facility in the Savings Bank accounts of minors. This rule applies universally, regardless of whether the account is held solely by the minor or jointly with a guardian. This is to protect the minor, who lacks contractual capacity, from incurring debt.

May/June 2015

34. What is the universal convention followed by banks for affixing thumb impressions for male and female illiterate account holders?
(A) LHTI for males, RHTI for females.
(B) Right Hand Thumb Impression (RHTI) for males, Left Hand Thumb Impression (LHTI) for females.
(C) LHTI for both males and females.
(D) Any thumb impression is acceptable for both.

Ans :

(A) LHTI for males, RHTI for females.
Although there is no strict law, it is a universal practice, also followed by police departments, to use the Left Hand Thumb Impression (LHTI) for males and the Right Hand Thumb Impression (RHTI) for females. Banks generally adhere to this convention for consistency and clear identification when dealing with illiterate account holders.

Oct/Nov 2012

35. Which facility is NOT extended to the savings account of an illiterate person?
(A) Passbook
(B) Nomination
(C) Cheque book
(D) ATM card for cash withdrawal

Ans :

(C) Cheque book
To mitigate risks associated with potential misuse, banks do not provide a cheque book facility to an illiterate person's account. Withdrawals must be made in person at the branch by affixing a thumb impression on the withdrawal form in the presence of a bank officer. This ensures the identity of the person making the withdrawal.

May/June 2011

36. A joint account for an illiterate person can be opened with a literate close relative. Which of the following relationships is explicitly mentioned as NOT permitted for this purpose?
(A) Husband and wife
(B) Father and son
(C) Mother and daughter
(D) Two cousins

Ans :

(D) Two cousins
When opening a joint account involving an illiterate person, the other holder must be a literate close relative. The text specifies permissible relationships such as father, son, husband, wife, mother, and daughter. However, it explicitly states that a joint account between two cousins, where one is illiterate, is not to be opened under this provision.

Oct/Nov 2020

37. As per RBI directions dated 4th June 2008, which banking facility CANNOT be denied to visually challenged persons?
(A) Overdraft facility
(B) Unsecured personal loans
(C) Cheque book, ATM, and Net banking
(D) Corporate credit cards

Ans :

(C) Cheque book, ATM, and Net banking

NODIA

May/June 2023

10. Which statement correctly describes the policy on cash deposits in a Current Account at a non-home branch?
(A) Cash can be deposited at a non-home branch, usually subject to a nominal charge.
(B) There are absolutely no restrictions or charges on cash deposits at any branch of the bank.
(C) Cash deposits are strictly and completely prohibited at all non-home branches of the bank.
(D) Cash deposits at non-home branches are permitted, but only up to a specific daily limit.

Ans :

(A) Cash can be deposited at a non-home branch, usually subject to a nominal charge.
While there are typically no restrictions on deposits at the home branch, a current account holder can deposit cash into their account at any other branch of the same bank. However, this service usually incurs a nominal charge, as stipulated by the individual bank's policy, to cover the cost of handling inter-branch cash transactions.

Oct/Nov 2018

11. What is the primary advantage for a bank in having a high proportion of Current Account deposits?
(A) They are considered long-term and highly stable deposits, ensuring funding security.
(B) They require minimal transaction processing, reducing the bank's operational overhead.
(C) They are the primary tool for attracting high-net-worth individual (HNI) customers.
(D) They provide a very low-cost or no-cost source of funds for the bank.

Ans :

(D) They provide a very low-cost or no-cost source of funds for the bank.
Current deposits are a vital component of a bank's funding because they are almost no-cost deposits. Since banks generally pay no interest on current account balances, these funds significantly bring down the overall cost of funds. This allows the bank greater flexibility to offer loans at competitive rates while still maintaining a healthy Net Interest Margin (NIM).

May/June 2019

12. A bank with a CASA deposit ratio of 35% or more is generally considered to be in what position?
(A) At high risk of liquidity crisis
(B) Better placed to perform
(C) Overly dependent on retail customers
(D) In need of raising more term deposits

Ans :

(B) Better placed to perform
A high CASA (Current Account Savings Account) deposit ratio is a key performance indicator for banks. Since CASA deposits are low-cost funds, a ratio of 35% or more indicates a healthy funding mix. This lowers the bank's average cost of funds, improves its Net Interest Margin (NIM) and profitability, and positions it to compete more effectively.

Oct/Nov 2006

13. To open a current account for a sole proprietorship, which combination of documents is required according to the provided source?
(A) An OVD of the proprietor plus a certified copy of any one of the listed business documents.
(B) A Registration certificate and a CST/VAT certificate are the only two documents required.
(C) An OVD of the proprietor plus certified copies of any two listed business documents.
(D) A complete Income Tax Return and a utility bill are the only two documents required.

Ans :

(C) An OVD of the proprietor plus certified copies of any two listed business documents.
For opening a current account for a sole proprietary firm, the bank must obtain a certified copy of an Officially Valid Document (OVD) for the proprietor's identity and address. In addition, certified copies of any two documents from the prescribed list, such as a registration certificate, tax returns, or utility bills, are required to establish the firm's existence.

May/June 2014

14. To open a current account for a partnership firm, which set of documents is mandatory?
(A) The PAN card of the firm and the Officially Valid Document (OVD) of any one managing partner.
(B) The partnership deed along with a board resolution signed by all partners authorizing

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utilization suggests a heavy reliance on credit, which is a significant red flag for lenders.

Oct/Nov 2022

98. From the lender's perspective, what does the return on a loan factor in, apart from profit?

(A) A specific premium calculated to cover the risk of the loan not being paid back

(B) A mandatory discount for the borrower's long-term loyalty to the financial institution

(C) The total administrative cost associated with processing the initial loan application paperwork

(D) The marketing and advertising expenses that were incurred to acquire that particular customer

Ans :

(A) A specific premium calculated to cover the risk of the loan not being paid back

The chapter describes the lender's pricing strategy. It states, "The return a lender seeks factors in, apart from his profit, a premium for the risk he feels he bears of not being paid back." This risk premium is higher for borrowers perceived as riskier and lower for those with a strong credit history.

May/June 2018

99. Which of the following is NOT a benefit for a bank that uses credit scoring?

(A) A significant reduction in the bank's overall loan defaults and non-performing assets

(B) Faster processing times for applications and quicker loan disbursal to customers

(C) A legal guarantee of 100% repayment on all loans sanctioned using the score

(D) An improvement in operational efficiency and lower costs for the credit department

Ans :

(C) A legal guarantee of 100% repayment on all loans sanctioned using the score

Credit scoring is a risk management tool, not a guarantee. The chapter mentions that it helps reduce defaults, makes disbursal faster, improves efficiency, and lowers costs. However, no tool can provide an absolute guarantee of repayment. It helps in making a more informed decision to mitigate risk, but the risk of default always remains.

NODIA

Oct/Nov 2016

100. The regulatory requirement for all Credit Institutions (CIs) to become members of all four CICs and submit data to them serves what primary purpose?

(A) To increase the level of direct competition among the four active CICs in the market

(B) To allow CIs to choose the CIC with the most favorable scoring model for their needs

(C) To provide a new and significant source of revenue for the Reserve Bank of India

(D) To ensure a comprehensive and complete credit database across the entire banking system

Ans :

(D) To ensure a comprehensive and complete credit database across the entire banking system

By mandating that all lenders submit data to all credit bureaus, the RBI ensures that each CIC has a complete picture of the credit landscape. This prevents information silos where a borrower's debt at one bank is unknown to another. It creates a robust, comprehensive, and system-wide database, which is essential for effective risk management.

When opening a current account, banks must be diligent. The initial deposit can be made with cash, a cheque (including one drawn on the customer's other bank account), or a demand draft. Extra care is required with demand drafts to prevent misuse. These measures are part of the due diligence process at the time of account opening.

Oct/Nov 2011

19. A company, ABC Ltd., has availed credit facilities from three banks. The total exposure of the banking system to ABC Ltd. is ₹4.5 crore. The company now wants to open a current account with a new bank, Bank D, where it has no credit facilities. As per RBI guidelines, what must Bank D do?

(A) Refuse to open the account as the exposure is high.
(B) Seek permission from the consortium leader.
(C) Open the account after obtaining an undertaking from ABC Ltd.
(D) Open a collection account only.

Ans :

(C) Open the account after obtaining an undertaking from ABC Ltd.
As per RBI notification dated October 29, 2021, for borrowers with banking system exposure less than ₹5 crore, there is no restriction on opening current accounts. However, the bank must obtain an undertaking from the borrower stating they will inform the bank(s) if and when their total credit facilities from the system reach ₹5 crore or more.

May/June 2010

20. XYZ Corp. has credit facilities (CC/OD) from the banking system totaling ₹50 crore. Its exposure is distributed as: Bank A (9%), Bank B (15%), and Bank C (76%). XYZ Corp. wants to maintain its primary current account. Which bank is permitted to host this account?

(A) Bank A, as it has the lowest exposure.
(B) Any of the three banks, at the borrower's discretion.
(C) Any bank, provided they open only a collection account.
(D) Only Bank B or Bank C.

Ans :

(D) Only Bank B or Bank C.
For borrowers with banking system exposure of ₹5 crore or more, a current account can be maintained with a bank that has at least 10% of the total exposure. In this case, Bank A has only 9% exposure and cannot open the main current account. Both Bank B (15%) and Bank C (76%) meet this criterion.

Oct/Nov 2005

21. For a joint current account with the operational instruction "Any two, three etc. jointly or survivors jointly or the last survivor", who must authenticate these instructions?

(A) The primary account holder only
(B) Any one of the joint account holders
(C) All the joint account holders
(D) The bank manager and the primary account holder

Ans :

(C) All the joint account holders
For any joint account, the operational instructions dictate how the account will be managed and how funds can be withdrawn. To ensure clarity and prevent future disputes, it is mandatory that these instructions, regardless of the specific mandate (like 'Either or Survivor' or 'Jointly'), are authenticated by the signatures of all the joint account holders.

May/June 2017

22. What is the correct signing style for cheques issued from a sole proprietorship firm's current account?

(A) The signature of the Sole Proprietor only, without any additional text or stamp.
(B) Signature of the proprietor with the prefix 'For and On Behalf of [Firm's name]'.
(C) Signature of the proprietor, the firm's stamp, and the prefix 'For [Firm's name]'.
(D) Signatures of both the Sole Proprietor and another designated authorized employee.

Ans :

(B) Signature of the proprietor with the prefix 'For and On Behalf of [Firm's name]'.
The operational instructions for a sole proprietorship account specify that the account is operated by the individual as the proprietor on behalf of the firm. Therefore, cheques must be signed in a representative capacity, with the style "For and On Behalf of [Firm's name]" followed

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proportion of CASA deposits as they represent a low-cost source of funds. Interest paid on savings accounts is low, and no interest is paid on current accounts, which enhances bank profitability.

May/June 2012

6. Why are banks the only institutions on which a cheque can be drawn?

(A) Because they are the only entities directly regulated by the central bank for payment systems.

(B) As banking law defines a cheque as a legal instrument drawn exclusively on a bank.

(C) Because their structure offers the highest liquidity needed for processing demand deposits.

(D) Because they are the exclusive intermediaries legally permitted to accept demand deposits.

Ans :

(B) As banking law defines a cheque as a legal instrument drawn exclusively on a bank.

A cheque is a specific type of legal document with clearly defined duties and responsibilities for all parties involved. According to established banking law and practice, an instrument can only be recognised as a cheque if it is drawn on a bank. A similar instrument drawn on any other financial or non-financial entity is not considered a cheque.

Oct/Nov 2021

7. What is the primary purpose of a Current Deposit Account?

(A) To encourage long-term saving habits among individuals

(B) To provide high-interest returns on surplus funds

(C) To offer a secure deposit option for salaried individuals

(D) To facilitate smooth business transactions for businessmen

Ans :

(D) To facilitate smooth business transactions for businessmen

The main objective of a current account is to enable businessmen and entities with a high volume of transactions to conduct their business operations smoothly. It is designed for frequent deposits, withdrawals, and contra transactions, and is not intended for saving purposes. It is a non-interest-bearing account tailored for the needs of businesses, not individual savers.

May/June 2005

8. Which of the following is an incorrect statement regarding the main features of a Current Deposit Account?

(A) It is designed to promote and encourage regular saving habits among account holders.

(B) It is a non-interest bearing account, meaning no credit interest is paid on the balance.

(C) It typically requires a higher minimum balance to be maintained than a standard savings account.

(D) It allows for an unlimited number and amount of withdrawals if funds are available.

Ans :

(A) It is designed to promote and encourage regular saving habits among account holders.

A Current Deposit Account is specifically designed for business transactions and does not promote saving habits. Key features include being non-interest bearing, requiring a higher minimum balance than savings accounts, and allowing unlimited transactions. Its primary objective is to facilitate business operations, not to encourage personal savings, which is the role of a savings account.

Oct/Nov 2009

9. A significant advantage available to a Current Account holder is the potential to receive which facility from the bank?

(A) Higher interest rates on balances

(B) A free safe deposit locker

(C) An overdraft facility

(D) Automatic investment in mutual funds

Ans :

(C) An overdraft facility

One of the most important advantages for a current account holder is the possibility of obtaining an overdraft facility. This allows the business to withdraw funds exceeding the available balance, up to a pre-sanctioned limit. This short-term borrowing facility is granted subject to the satisfactory conduct of the account and helps businesses manage temporary cash flow mismatches.

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Ans :

(D) It provides an overdraft facility for business needs.
Savings accounts offer several advantages to customers, including earning interest, making payments via cheques, and using the passbook as an identity/address proof. However, an overdraft facility is typically associated with Current Accounts to meet business needs and is not a standard feature of a personal Savings Bank account, which is for saving purposes.

May/June 2024

28. How do Savings Bank deposits contribute to a bank's earnings and stability?
(A) By generating a high volume of transaction fees from frequent customer activity.
(B) By providing a low-cost, stable deposit base for deployment into profitable advances.
(C) By acting as the primary product for attracting and retaining large corporate clients.
(D) By providing a substantial base of funds for making high-risk, high-return investments.

Ans :

(B) By providing a low-cost, stable deposit base for deployment into profitable advances.
Savings deposits are a valuable component of a bank's CASA deposits. They provide a broad and relatively stable retail deposit base. Being low-cost funds, they can be profitably deployed into higher-yielding loans and advances. This helps the bank improve its interest spread (NIM) and shore up its overall earnings and profitability.

Oct/Nov 2008

29. What is the essential legal relationship between a bank and a depositor when a savings account is opened?
(A) Agent and Principal
(B) Trustee and Beneficiary
(C) Debtor and Creditor
(D) Bailor and Bailee

Ans :

(C) Debtor and Creditor
When a customer deposits money into a bank account, the bank becomes a debtor, as it owes that money to the customer. The depositor, in turn, becomes a creditor, as they have the right to claim that money from the bank. This Debtor-Creditor relationship is the fundamental legal basis of the contract between them.

May/June 2006

30. As per the Indian Majority Act, 1875 (as amended w.e.f. Dec. 16, 1999), when does a person for whom a guardian has been appointed by a court attain majority?
(A) On completion of 16 years of age
(B) On completion of 21 years of age
(C) On completion of 25 years of age
(D) On completion of 18 years of age

Ans :

(D) On completion of 18 years of age
The Indian Majority Act, 1875, defines the age of majority. An amendment effective from December 16, 1999, standardized this age. Now, even in cases where a court appoints a guardian for a minor's person or property, the individual attains majority upon completing 18 years of age. Prior to this amendment, the age was 21.

Oct/Nov 2017

31. According to RBI directives, what is the minimum age for a minor to open and operate a Savings Bank account in their sole name, subject to certain conditions?
(A) 10 years
(B) 8 years
(C) 12 years
(D) 14 years

Ans :

(A) 10 years
RBI directives permit a minor who is 10 years of age or older to open and operate a Savings Bank account independently. This is subject to the condition that the minor is literate (can read and write) and, in the bank's opinion, capable of understanding the transactions and rules associated with the account.

May/June 2008

32. For a self-operated minor's account, what is the maximum balance that can be held at any time, and for what age group is this limit not applicable?
(A) ₹50,000; not applicable for minors 12 years and above.
(B) ₹1,00,000; not applicable for minors 14 years and above.
(C) ₹2,00,000; not applicable for minors 16 years and above.

NODIA

by the signature of the sole proprietor to indicate the transaction is for the business.

Oct/Nov 2025

23. To guard against fraudulent or money laundering activities, bank officials are advised to keep a close watch on newly opened current accounts for an initial period of at least how long?
(A) One month
(B) Three months
(C) Twelve months
(D) Six months

Ans :

(D) Six months
As a key part of monitoring newly opened accounts, bank managers and deposit section staff should maintain a close watch for at least the first six months. This initial period is considered critical for identifying and guarding against any potential fraudulent activities, suspicious transactions, or money laundering attempts that might be routed through the new account.

May/June 2020

24. A current account is treated as an 'inoperative account' if there are no operations continuously for what period?
(A) Two years
(B) Six months
(C) One year
(D) Three years

Ans :

(A) Two years
A current account is classified as 'inoperative' when there are no customer-induced transactions (debits or credits) for a continuous period of two years. Once classified as inoperative, certain restrictions may apply, and the account holder typically needs to complete fresh KYC formalities to reactivate the account and resume normal operations.

Oct/Nov 2015

25. Before closing a current account at a customer's request, which of the following must a bank check?
1. Any pending cheque under collection
2. Any outstanding guarantee or Letter of Credit (LC) issued
3. Any locker allotted with reference to the account
4. Any dues on credit cards issued on his behalf

(A) Only (1), (2) and (4)
(B) Only (1), (3) and (4)
(C) All (1), (2), (3) and (4)
(D) Only (2) and (4)

Ans :

(C) All (1), (2), (3) and (4)
Before closing a current account, the bank must conduct a thorough check to ensure no outstanding liabilities or pending transactions are linked to it. This includes verifying pending cheque collections, uncleared dues, outstanding guarantees or LCs, and the status of any allotted locker. All dues must be recovered before the final balance is paid out.

May/June 2013

26. Which RBI circular prohibits banks from opening Savings Bank (SB) accounts for business entities?
(A) RPCD.CO.RF.BC.no.87/07.38.01/2005-06 dated June 6, 2006
(B) DBOD.Dir.BC.42/13.03.00/2011-12 dated October 25, 2011
(C) RBI/2021-22/116DOR.CRE. REC.63/21.04.048/2021-22
(D) RF.Dir.BC.30/07.38.01/2000-01 dated October 17, 2000

Ans :

(A) RPCD.CO.RF.BC.no.87/07.38.01/2005-06 dated June 6, 2006
The Reserve Bank of India (RBI) generally prohibits the opening of Savings Bank accounts for business entities, as these accounts are meant for individuals' savings. This prohibition and the specific exceptions for certain non-profit organizations and government departments are detailed in circulars, including RPCD.CO.RF. BC.no.87/07.38.01/2005-06 dated June 6, 2006, and an earlier one from 2000.

Oct/Nov 2023

27. Which of the following is NOT considered an advantage of a Savings Bank deposit for a customer?
(A) It enables the depositor to earn interest.
(B) It facilitates payments by issuing cheques.
(C) The passbook acts as proof of identity and residence.
(D) It provides an overdraft facility for business needs.

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Following a court order, the RBI directed banks to ensure that all banking facilities, including cheque books, ATMs, Net banking, lockers, retail loans, and credit cards, are invariably offered to visually challenged persons without discrimination. The possibility of risk is not a valid reason for denial, as they are legally competent to contract.

May/June 2022

38. For an incapacitated person who has lost both hands, what is a permissible method for executing documents to open a bank account?
(A) A verbal declaration in front of two witnesses.
(B) Affixing their toe impression before a bank official and a witness.
(C) A signature mark made with their mouth.
(D) Having a family member sign on their behalf without a power of attorney.

Ans :

(B) Affixing their toe impression before a bank official and a witness.
For individuals who cannot sign due to the loss of both hands, banks have procedures to facilitate account opening. One such method is to request the person to put their toe impression (either right or left) on the relevant forms. This must be done in the presence of a senior bank official and a witness.

Oct/Nov 2014

39. What legal presumption exists in contracts entered into by a Pardanashin woman, requiring banks to take utmost care?
(A) Presumption of illiteracy
(B) Presumption of lack of identity
(C) Presumption of insolvency
(D) Presumption of undue influence

Ans :

(D) Presumption of undue influence
A Pardanashin woman is one who observes complete seclusion. Due to this seclusion, the law presumes that any contract she enters into may be a result of undue influence, meaning it might not be of her own free will. This presumption of undue influence makes the contract potentially defective, compelling banks to exercise extreme caution.

May/June 2016

40. Which of the following entities is ALLOWED to open a Savings Bank Account as per RBI guidelines?
(A) Self-Help Groups (SHGs), registered or unregistered
(B) Municipal Corporations
(C) A proprietary or partnership firm
(D) Any political party

Ans :

(A) Self-Help Groups (SHGs), registered or unregistered
While RBI prohibits business and political entities from opening savings accounts, it provides exceptions for certain categories to promote specific socio-economic goals. Self-Help Groups (SHGs), whether registered or unregistered, that are engaged in promoting savings habits among their members are one such category explicitly allowed to open savings accounts.

Oct/Nov 2007

41. Which of the following non-individual entities is explicitly NOT permitted to open a savings account according to the latest RBI guidelines mentioned?
(A) Khadi and Village Industries Boards
(B) Agriculture Produce Market Committees
(C) State Housing Boards
(D) Development of Women and Children in Rural Areas (DWCRA)

Ans :

(C) State Housing Boards
The text provides two lists: entities allowed to open savings accounts and those for whom current accounts cannot be opened (implying they cannot open savings accounts either). State Housing Boards fall into the latter category, along with Municipal Corporations, Panchayat Samitis, and political parties, and are thus not permitted to open savings bank accounts.

May/June 2021

42. On what date did the RBI deregulate the interest rate on domestic Savings Bank deposits?
(A) October 25, 2011
(B) June 6, 2006
(C) October 17, 2000
(D) July 2, 2021

NODIA

(D) A fixed, uniform 7-day period for the clearing of all local cheques.

Ans :

(B) The implementation of account number portability within the same bank.
The text explicitly states that as per the recommendations of the Damodaran Committee on Customer Service, the Indian Banks' Association (IBA) has directed banks to implement account number portability. This facility allows a customer to retain their account number even when they shift their account to another branch of the same bank.

May/June 2016

82. Which two statements are correct regarding the opening of a Savings Bank account for a minor?
1. An account can be opened in the sole name of a minor below 10 years, operated by a guardian.
2. A minor aged 10 can be issued a cheque book if they are literate and capable.
3. Overdraft is permitted with the guardian's written undertaking.
4. The maximum balance for a 15-year-old's self-operated account is ₹1,00,000.

(A) 1 and 2
(B) 2 and 4
(C) 1 and 3
(D) 3 and 4

Ans :

(A) 1 and 2
An account for a minor below 10 years can be opened and operated by a natural guardian. A minor aged 10 or above can operate their own account and can be issued a cheque book if deemed capable. Overdraft is strictly prohibited (statement 3 is false). The balance limit of ₹1,00,000 does not apply to minors aged 14 and above (statement 4 is false).

Oct/Nov 2007

83. Identify the incorrect pair regarding documents required for opening a current account.
(A) Hindu Undivided Family : Joint Hindu Family letter and PAN Card of HUF
(B) Limited Company : Certificate of Incorporation and Articles of Association
(C) Co-operative Society : Copy of Resolution and Trust Deed
(D) Partnership Firm : Partnership Deed and PAN card of the entity

Ans :

(C) Co-operative Society : Copy of Resolution and Trust Deed
For a co-operative society, required documents include the certificate of registration, certified copy of bye-laws, and a resolution of the managing committee. A Trust Deed is a document required for opening an account for a Charitable or Public Trust, not a Co-operative Society, making this an incorrect pairing of entity and document.

May/June 2021

84. In the context of a '2 in 1 account', consider the following:
I. Auto Sweep moves excess funds from SB/CA to an FD.
II. Reverse Sweep breaks the FD to cover a shortfall in SB/CA.
III. FDs are broken on a First-In-First-Out (FIFO) basis.
IV. The facility offers both liquidity and higher returns.

Which of the above statements are correct?
(A) I, II, and III only
(B) I, II, and IV only
(C) II, III, and IV only
(D) I, III, and IV only

Ans :

(B) I, II, and IV only
The '2 in 1 account' functions through Auto Sweep (moving surplus to FD) and Reverse Sweep (breaking FD for liquidity), offering both higher returns and liquidity. However, the FDs are broken on a Last-In-First-Out (LIFO) basis to maximize customer benefit, not FIFO. Therefore, statement III is incorrect, while I, II, and IV are correct.

Oct/Nov 2010

85. What is the procedure for premature payment of an 'Either or Survivor' joint time deposit when one of the account holders has expired?
(A) Allows the surviving account holder to take the full payment alone.
(B) Requires that the payment be made only to the registered nominee.
(C) Requires consent from both the survivor and the deceased's legal heirs.
(D) The account is frozen until a court-issued succession certificate is produced.

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(D) The minimum number of digital or branch transactions required to be performed each month.

Ans :

(A) A combined average balance across a customer's savings and fixed deposit accounts.
Some banks, particularly private ones, use the concept of minimum average relationship value. This is a combined average of balances held in a customer's savings account and their fixed deposit accounts. This approach focuses on the overall profitability of the customer relationship rather than just the balance in a single savings account.

May/June 2012

48. Which of the following is an example of an "Auto Sweep" facility in a savings account?
(A) Automatic payment of utility bills from the account.
(B) Automatic creation of an FD when the balance exceeds a specified minimum.
(C) Automatic transfer of salary into the account.
(D) Automatic debit for loan EMI payments.

Ans :

(B) Automatic creation of an FD when the balance exceeds a specified minimum.
The Auto Sweep facility is a feature that links a savings account to a fixed deposit. When the balance in the savings account surpasses a pre-set threshold, the excess amount is automatically transferred or "swept" into a new fixed deposit, allowing the customer to earn a higher rate of interest on their surplus funds.

Oct/Nov 2021

49. A time deposit receipt is not a negotiable instrument. What is the implication of this?
(A) It cannot be used as collateral for a loan.
(B) It cannot be transferred by endorsement to another person.
(C) The interest rate on it cannot be changed.
(D) It must be held for a minimum period of one year.

Ans :

(B) It cannot be transferred by endorsement to another person.
Because a time deposit receipt is not a negotiable instrument under law, it lacks the quality of free transferability. This means the original depositor cannot simply endorse the receipt and transfer the ownership of the deposit to another person. The deposit represents a contract solely between the bank and the named depositor(s).

May/June 2005

50. What is the minimum period for a term deposit of ₹15 lakhs or more?
(A) 7 days
(B) 30 days
(C) 15 days
(D) 45 days

Ans :

(A) 7 days
The minimum tenure for a term deposit varies with the amount. For deposits of ₹15 lakhs and above, the minimum period for which a bank can accept the deposit is 7 days. For amounts less than ₹15 lakhs, the minimum period is generally 15 days, although these specific thresholds may vary between banks.

Oct/Nov 2009

51. What is the maximum period for which banks normally accept a fixed deposit, excluding special cases?
(A) 60 months (5 years)
(B) 180 months (15 years)
(C) 120 months (10 years)
(D) 240 months (20 years)

Ans :

(C) 120 months (10 years)
As a general rule, banks accept fixed deposits for a maximum tenure not exceeding 120 months, or 10 years. While deposits for longer periods (up to 20 years) are possible in special cases, such as under a court order or for specific schemes, the standard maximum period is 10 years.

May/June 2023

52. When a customer chooses to have the quarterly interest on their FD reinvested into the principal, this type of deposit is known as a:
(A) Simple FD
(B) Reinvestment FD
(C) Annuity FD
(D) Cumulative FD

Ans :

(D) Cumulative FD

NODIA

Ans :

(A) October 25, 2011
Prior to 2011, the interest rate on Savings Bank deposits was regulated by the RBI. With effect from October 25, 2011, through circular No. DBOD.Dir.BC.42/13.03.00/2011-12, the RBI deregulated this rate, giving banks the autonomy to determine their own interest rates on domestic SB deposits, subject to certain conditions.

Oct/Nov 2010

43. Following the deregulation of savings deposit interest rates, what condition must banks adhere to for deposits up to ₹1 lakh?
(A) The rate must be lower than the repo rate.
(B) The rate must be approved by the IBA.
(C) A differential rate can be offered based on customer profile.
(D) A uniform interest rate must be offered.

Ans :

(D) A uniform interest rate must be offered.
Along with deregulation, the RBI stipulated a key condition. Each bank must offer a single, uniform interest rate on all savings bank deposits up to ₹1 lakh. This ensures that small depositors are treated equally, irrespective of the specific amount they hold within this limit, preventing discrimination among them.

May/June 2018

44. Using the provided statement, what is the daily product for the balance held on 04/04/2021 and 05/04/2021? (Source table omitted for brevity)
(A) ₹1,10,000
(B) ₹2,20,000
(C) ₹3,30,000
(D) ₹1,000

Ans :

(B) ₹2,20,000
The balance on 04/04/2021 became ₹1,10,000. This balance was maintained for 2 days (the 4th and the 5th) before the next transaction on the 6th. The daily product is calculated as Balance × Number of Days. Therefore, the product for this period is ₹1,10,000 × 2 days = ₹2,20,000, which is used for interest calculation.

Oct/Nov 2024

45. Using the provided table for a customer's savings account in April 2021 (a 30-day month), the total of daily products is ₹24,79,000. What is the Monthly Average Balance (MAV) for April?
(A) ₹92,000.00
(B) ₹2,47,900.00
(C) ₹82,633.33
(D) ₹79,966.67

Ans :

(C) ₹82,633.33
The Monthly Average Balance (MAV) is calculated by dividing the sum of all daily closing balances (the total of daily products) by the number of days in the month.
Given the total product is ₹24,79,000 and April has 30 days, the MAV is calculated as

$$\frac{24,79,000}{30} = 82,633.33.$$

May/June 2007

46. Given the total of daily products for a savings account for April 2021 is ₹24,79,000 and the applicable interest rate is 3% p.a., what is the interest earned for the month? (Assume a 365-day year).
(A) ₹247.90
(B) ₹616.19
(C) ₹20.37
(D) ₹203.75

Ans :

(D) ₹203.75
Interest on a daily product basis is calculated using the formula:

$$\frac{\text{Total Product} \times \text{Rate}}{100} \times \frac{1}{365}$$

Using the given values, the calculation is

$$\frac{24,79,000 \times 3}{100} \times \frac{1}{365} = 203.75$$

This is the interest accrued for the month based on the daily balances held in the account.

Oct/Nov 2016

47. What is a "minimum average relationship value" as prescribed by some private banks?
(A) A combined average balance across a customer's savings and fixed deposit accounts.
(B) The absolute minimum balance to be maintained at all times in the savings account only.
(C) The total value of all loan products, such as personal and auto loans, taken by the customer.

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If a deposit's maturity date falls on a holiday or non-business day, the customer is not penalized. Banks are required to pay interest for the intervening day(s) (e.g., Saturday, Sunday) until the next working day. This interest is calculated on the original principal amount at the rate originally contracted for the deposit.

Oct/Nov 2022

57. As per the rules mentioned, what is the TDS deduction threshold on time deposit interest in a financial year for a senior citizen (aged 60 years or more)?
(A) ₹10,000
(B) ₹40,000
(C) ₹50,000
(D) ₹1,00,000

Ans :

(C) ₹50,000
The Income Tax Act provides a higher threshold for Tax Deducted at Source (TDS) for senior citizens. TDS is applicable on interest from time deposits only if the total interest paid or credited in a financial year exceeds ₹50,000 for an individual who is 60 years of age or older.

May/June 2025

58. If a depositor does not furnish their PAN card, what is the applicable rate of TDS on interest income from time deposits?
(A) 20%
(B) 10%
(C) 15%
(D) 30%

Ans :

(A) 20%
The standard rate for Tax Deducted at Source (TDS) on interest income from time deposits is 10%, provided the depositor has furnished their Permanent Account Number (PAN). However, if the depositor fails to provide their PAN card details to the bank, the TDS is deducted at a higher penal rate of 20%.

Oct/Nov 2019

59. What is the typical range for the margin that banks retain when offering a loan against a Fixed Deposit (FD)?
(A) 0.5% to 1%
(B) 25% to 30%
(C) 40% to 50%
(D) 10% to 20%

Ans :

(D) 10% to 20%
When sanctioning a loan against an FD, banks typically lend up to 80% to 90% of the FD's value. The remaining 10% to 20% is the margin. This margin is retained to protect the bank's interest, covering the accrued interest on the loan in case the customer defaults and the loan has to be adjusted against the FD.

May/June 2009

60. What is the RBI guideline regarding advances against Time Deposits of other banks?
(A) They are permitted with a higher margin.
(B) They are strictly prohibited.
(C) They are allowed only for valuable clients.
(D) They require prior approval from the RBI.

Ans :

(B) They are strictly prohibited.
As per RBI guidelines, a bank is strictly prohibited from granting any advance or loan against a Time Deposit Receipt (TDR) or Fixed Deposit Receipt (FDR) issued by another bank. A bank can only grant advances against its own time deposit receipts, as this allows for a direct lien and control over the underlying security.

Oct/Nov 2011

61. According to the RBI rule of July 2, 2021, if an FD matures and the proceeds remain unclaimed and un-renewed, what interest rate will apply to the amount?
(A) The original contracted rate of the FD, compounded quarterly until claimed.
(B) The prevailing FD rate for the same tenor, as on the date of maturity.
(C) The lower of the savings account rate or the original contracted FD rate.
(D) The higher of the savings account rate or the original contracted FD rate.

Ans :

(C) The lower of the savings account rate or the original contracted FD rate.
To discourage funds lying idle in matured, unclaimed FDs, the RBI has mandated a specific interest rate treatment. The unclaimed amount will earn interest at the rate applicable to the bank's savings account or the original contracted

NODIA

In a Cumulative FD, also known as a compound interest deposit, the interest earned at regular intervals (usually quarterly) is not paid out to the customer. Instead, it is reinvested and added to the principal amount. The entire sum, including the compounded interest, is then paid out at the maturity of the deposit.

Oct/Nov 2018

53. A customer has a 5-year Fixed Deposit of ₹1,00,000 opened on 15th October 2021 at 8% p.a. They request premature closure after exactly 2 years. On the date of deposit creation, the bank's interest rate for a 2-year deposit was 5% p.a. The bank's penalty for premature withdrawal is 1%. At what rate will the interest be paid?

(A) 8% p.a.
(B) 5% p.a.
(C) 4% p.a.
(D) 7% p.a.

Ans :

(C) 4% p.a.
For premature withdrawal, interest is paid at the rate applicable on the date of deposit for the period the deposit actually remained with the bank, less a penalty. Here, the deposit remained for 2 years, for which the rate was 5%. After deducting the 1% penalty, the interest will be paid at 4% p.a. (5% - 1%).

May/June 2019

54. Match List-I (Joint FD Operational Instruction) with List-II (Procedure for Premature Payment when all holders are alive).

	List I		List II
P.	Either or Survivor	1.	Consent of the "Former" is required
Q.	Former or Survivor	2.	Consent of all account holders is essential
R.	Jointly Operated	3.	Consent of the "Latter" is not sufficient
S.	Latter or Survivor	4.	Consent of any one account holder is sufficient

(A) P4Q1R2S3
(B) P-2, Q-2, R-2, S-2
(C) P2Q1R2S3
(D) P4Q2R2S4

Ans :

(B) P-2, Q-2, R-2, S-2
The table in the text specifies that for premature payment of an 'Either or Survivor' deposit when all account holders are alive, the consent of all holders is essential. This principle of requiring joint consent for premature withdrawal applies irrespective of the maturity payment mandate ('Either or Survivor', 'Former or Survivor', etc.) to protect the interests of all depositors.

Oct/Nov 2006

55. According to the Income Tax Act, 1961, if the aggregate amount of all time deposits (including interest) repayable to a person at a branch is ₹20,000 or more, how must the repayment be made?

(A) Strictly in cash and only directly to the named depositor in person.
(B) Through a bearer cheque that can be encashed by anyone who presents it.
(C) By any payment means as specifically requested in writing by the depositor.
(D) Through an account payee cheque/draft or by direct credit to an account.

Ans :

(D) Through an account payee cheque/draft or by direct credit to an account.
To ensure a documented trail for financial transactions, the Income Tax Act, 1961 mandates that if the total repayment amount for time deposits at a branch to a single person equals or exceeds ₹20,000, the payment must be made through banking channels. This is done via an "A/c Payee" cheque/draft or by direct credit to an account.

May/June 2014

56. If a term deposit matures on a Saturday, which is a non-business day, how is the interest for the intervening non-business days calculated?

(A) Interest is paid at the original contracted rate on the principal.
(B) No interest is paid for any of the intervening non-business days.
(C) Interest is paid for the intervening days at the current savings bank rate.
(D) A standard penalty is charged for the delayed payment collection by the customer.

Ans :

(A) Interest is paid at the original contracted rate on the principal.

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(B) Higher than the rate applicable to Fixed Deposits for the same period.
(C) The same as the rate applicable to Fixed Deposits for the same period.
(D) The same as the Savings Bank account interest rate.

Ans :

(C) The same as the rate applicable to Fixed Deposits for the same period.
A Recurring Deposit (RD) account helps customers save a fixed amount monthly. The interest rate earned on an RD is the same as the rate applicable to a regular Fixed Deposit (FD) for that specific tenure. It essentially functions like making a series of small FDs every month, all earning the same contracted rate.

May/June 2013

68. What happens if a depositor pays RD instalments in advance?
(A) They receive a bonus interest on the advance instalments.
(B) The maturity date of the RD is preponed.
(C) The penalty for future delays is waived.
(D) No extra benefit will accrue to the depositor.

Ans :

(D) No extra benefit will accrue to the depositor.
While banks accept advance payment of RD instalments, this does not result in any extra financial benefit for the depositor. The interest calculation is based on the pre-defined schedule of monthly deposits, and paying early does not entitle the customer to additional interest. However, it can be set off against penalties for delayed instalments.

Oct/Nov 2023

69. Balances in savings or current accounts that are not operated for 10 years are classified as "Unclaimed Deposits" and are transferred by banks to which fund?
(A) Consolidated Fund of India
(B) Prime Minister's Relief Fund
(C) Depositor Education and Awareness (DEA) Fund
(D) Contingency Fund of RBI

Ans :

(C) Depositor Education and Awareness (DEA) Fund
When a deposit account remains inoperative for ten years, or a term deposit is not claimed for ten years post-maturity, the balance is classified as an "Unclaimed Deposit." Banks are required to transfer these amounts to the Depositor Education and Awareness (DEA) Fund, which is maintained by the Reserve Bank of India.

May/June 2024

70. The Banking Companies (Nomination) Rules, which provide for nomination in deposit accounts, were brought into force in which year?
(A) 1949
(B) 1985
(C) 1999
(D) 2011

Ans :

(B) 1985
The framework for the nomination facility in banking was established through the introduction of Sections 45ZA to 45ZF in the Banking Regulation Act, 1949. The detailed operational rules, The Banking Companies (Nomination) Rules, were framed by the Central Government in consultation with the RBI and brought into force with effect from 1985.

Oct/Nov 2008

71. In which type of account is the nomination facility NOT available?
(A) Single savings account
(B) Joint deposit account
(C) Sole proprietary concern current account
(D) Accounts opened in a representative capacity

Ans :

(D) Accounts opened in a representative capacity
The nomination facility is available for accounts opened in an individual capacity (single or joint) and for sole proprietary concern current accounts. However, it is not extended to accounts opened in a representative capacity, such as an account opened by a guardian for a minor or by an executor of a will, as the funds do not belong to the account holder personally.

May/June 2006

72. According to the guidelines, what is the maximum number of nominees that can be appointed for a deposit account?
(A) One person only
(B) Two persons jointly

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rate of the matured FD, whichever of the two is lower, until the amount is claimed.

May/June 2010

62. Which form should an individual who is 60 years or older submit to the bank to prevent TDS deduction on FD interest, provided their income is below the taxable limit?
(A) Form 15G
(B) Form 16A
(C) Form 60
(D) Form 15H

Ans :

(D) Form 15H
Form 15H is a self-declaration form specifically for senior citizens (aged 60 years and above). By submitting this form at the beginning of the financial year, they declare that their total income is not chargeable to income tax, thereby instructing the bank not to deduct TDS on their interest income from deposits.

Oct/Nov 2005

63. For an individual below 60 years of age with income up to ₹2.5 Lakh, which form must be submitted to avoid TDS on bank FD interest?
(A) Form 15G
(B) Form 15H
(C) Form 16
(D) Form 26AS

Ans :

(A) Form 15G
Form 15G is the designated self-declaration form for individuals below the age of 60 years (and also for HUFs). If their total income does not exceed the maximum amount not chargeable to tax (currently ₹2.5 Lakh for this group), they can submit this form to the bank to request non-deduction of TDS on interest.

May/June 2017

64. By what date must a bank deposit the Tax Deducted at Source (TDS) for the month of March to the government?
(A) 7th April
(B) 30th April
(C) 31st March
(D) 7th May

Ans :

(B) 30th April
While the general rule is to deposit TDS by the 7th of the subsequent month, a special provision exists for the month of March. TDS deducted in March can be deposited to the government by 30th April of the same year, allowing more time for end-of-financial-year reconciliations and calculations.

Oct/Nov 2025

65. In a '2 in 1' or 'sweep' account, what is the principle used to break Fixed Deposits to meet a shortfall in the operating account?
(A) FIFO (First In, First Out)
(B) LIFO (Last In, First Out)
(C) HIFO (Highest In, First Out)
(D) LILO (Last In, Last Out)

Ans :

(B) LIFO (Last In, First Out)
For maximum benefit to the customer, the Reverse Sweep facility in a 2-in-1 account operates on a Last In, First Out (LIFO) basis. This means the most recently created Fixed Deposit is broken first to cover a shortfall. This method preserves the older FDs, which may have accrued more interest, for a longer duration.

May/June 2020

66. What is the primary benefit of a 'Reverse Sweep' facility for a depositor?
(A) It provides liquidity by giving access to funds swept into FDs.
(B) It provides higher returns on FDs.
(C) It automatically pays bills and EMIs.
(D) It offers a free insurance cover.

Ans :

(A) It provides liquidity by giving access to funds swept into FDs.
The Reverse Sweep facility is designed to offer liquidity. If the main savings or current account has insufficient funds for a debit transaction, the system automatically breaks the linked FDs (created via Auto Sweep) to the extent needed. This ensures that transactions are honored while the remaining FD balance continues to earn higher interest.

Oct/Nov 2015

67. The interest rate applicable to a Recurring Deposit (RD) for a particular period is generally:
(A) Lower than the rate applicable to Fixed Deposits for the same period.

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Oct/Nov 2012

77. As per RBI guidelines, what is the maximum time limit for banks to settle claims and release payments to the survivor/nominee of a deceased depositor?
(A) 7 days from the date of receipt of the claim.
(B) 30 days from the date of receipt of the claim.
(C) 15 days from the date of receipt of the claim.
(D) 45 days from the date of receipt of the claim.

Ans :

(C) 15 days from the date of receipt of the claim.
To ensure prompt settlement and reduce hardship for the bereaved family, RBI has set a clear timeline. Banks are mandated to settle claims in respect of deceased depositors and release the funds to the survivor(s) or nominee(s) within a period not exceeding 15 days from the date of receiving the claim and necessary documents.

May/June 2011

78. If a locker was hired jointly with the instruction "either or survivor", what happens upon the death of one of the hirers?
(A) The locker is sealed until a court order is produced.
(B) The nominee is given sole access to the locker.
(C) The bank opens the locker and prepares an inventory.
(D) The bank follows the mandate and allows the survivor to access the locker.

Ans :

(D) The bank follows the mandate and allows the survivor to access the locker.
When a locker is hired with a survivorship clause like "either or survivor," the bank must honor this mandate. In the event of the death of one of the joint hirers, the bank will allow the surviving hirer(s) access to the locker as per the instructions given at the time of hiring the locker.

Oct/Nov 2020

79. Assertion (A): The cost of maintaining demand deposit accounts is high for banks.
Reason (R): Demand deposit accounts involve a large number of transactions, and banks pay no interest on Current Accounts and low interest on Savings Accounts.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that maintaining demand deposits is costly is true. The reason correctly explains this by highlighting two contrasting factors: the high operational cost due to a large volume of transactions, and the low or nil interest cost. The high transaction cost is a significant component of the overall cost of these accounts.

May/June 2022

80. Identify the correct statement(s) regarding the monitoring of newly opened current accounts.
I. KYC guidelines should be followed during opening and monitoring.
II. Transactions and turnover should be checked to see if they are commensurate with the business nature.
III. The genuineness of third-party credits must be verified by the bank.
IV. A close watch should be kept for the first twelve months.
(A) I and II only
(B) I, II, and III only
(C) II, III, and IV only
(D) All I, II, III, and IV

Ans :

(B) I, II, and III only
Proper monitoring of new accounts is crucial. It involves adhering to KYC norms, ensuring the turnover aligns with the declared business nature, and verifying the genuineness of any third-party credits. The text specifies a close watch for the first six months, not twelve, making statement IV incorrect. Therefore, only statements I, II, and III are correct.

Oct/Nov 2014

81. Which of the following is a key recommendation of the Damodaran Committee on Customer Service mentioned in the text?
(A) The complete standardization of all bank service charges across the industry.
(B) The implementation of account number portability within the same bank.
(C) The mandatory issuance of free cheque books to all savings account holders.

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(C) One person, but a minor can have two
(D) Any number of persons as per the depositor's wish

Ans :

(A) One person only
As per the prevailing guidelines for deposit accounts, nomination can be made in favour of only one person. While nomination for more than one person is permissible in the specific case of jointly operated safe deposit lockers, for deposit accounts (savings, current, FD, RD), the depositor can only nominate a single individual.

Oct/Nov 2017

73. When does the right of a nominee to receive payment from a joint deposit account arise?
(A) Immediately upon nomination
(B) After the death of the primary account holder
(C) After the death of all depositors in the account
(D) After the deposit account matures

Ans :

(C) After the death of all depositors in the account
The right of a nominee is contingent upon the death of the depositor(s). For a single account, the right arises after the depositor's death. For a joint account, the nominee's right to receive the payment from the bank only comes into effect after the death of all the joint account holders.

May/June 2008

74. What is the legal status of a survivor or nominee who receives payment from a deceased depositor's account?
(A) They receive the funds as a trustee on behalf of the legal heirs.
(B) They become the absolute and undisputed owner of the funds.
(C) They must distribute the funds equally among all known relatives.
(D) They are required to deposit the funds with a court of law for disbursal.

Ans :

(A) They receive the funds as a trustee on behalf of the legal heirs.
Payment to a nominee or survivor provides a valid discharge to the bank from its liability. However, the recipient does not become the absolute owner. The bank must make it clear that the nominee/survivor receives the payment as a trustee, holding the funds on behalf of the actual legal heirs of the deceased depositor.

Oct/Nov 2013

75. In the event of a depositor's death, what is the bank's policy regarding penal charges for premature termination of a term deposit?
(A) A double penalty is charged to cover administrative costs.
(B) The standard penalty for premature withdrawal is applied as usual.
(C) The penalty amount is decided based on the nominee's specific request.
(D) The premature withdrawal is exempt from any penal charges.

Ans :

(D) The premature withdrawal is exempt from any penal charges.
To avoid hardship to the family of a deceased depositor, banks include a clause in the account opening form allowing for premature termination of term deposits in the event of death. Such withdrawals, made by the nominee or legal heirs, are explicitly exempted from the levy of any penal charges that would normally apply to premature closures.

May/June 2015

76. Which of the following is an approach suggested for banks to handle 'pipeline flows' (inward remittances) in the name of a deceased account holder?
(A) Automatically credit all incoming funds to the nominee's personal bank account.
(B) Open a new account styled as 'Estate of [Deceased's Name]' for crediting funds.
(C) Hold the funds indefinitely in an internal suspense account until claimed.
(D) Immediately reject and return all remittances without notifying the nominee or heirs.

Ans :

(B) Open a new account styled as 'Estate of [Deceased's Name]' for crediting funds.
To manage inward remittances for a deceased person, one approved approach is for the bank, with the nominee's/survivor's authorization, to open a new account titled 'Estate of [Deceased's Name]'. Pipeline flows can be credited to this account, but no withdrawals are permitted, thus segregating the funds until the legal settlement process is completed.

NODIA

Ans :

(C) Requires consent from both the survivor and the deceased's legal heirs.
While the surviving account holder can receive payment on maturity, premature payment after the death of one holder requires more diligence. To protect the interests of the deceased's estate, the bank must obtain the consent of all surviving account holders as well as the consent of the legal heir(s) of the deceased depositor.

May/June 2018

86. Which of the following statements about Recurring Deposit (RD) accounts is incorrect?
(A) The rate of interest is the same as that of FDs for an identical tenure.
(B) Paying instalments in advance grants the depositor a special bonus interest.
(C) Premature payment is permitted on the same terms applicable to an FD.
(D) A specific penalty is levied by the bank for delayed payment of instalments.

Ans :

(B) Paying instalments in advance grants the depositor a special bonus interest.
An RD account shares many features with an FD, including similar interest rates and premature payment rules. Penalties are charged for delays. However, while advance payment of instalments is permitted, it does not accrue any extra benefit or bonus interest for the depositor, although it can offset penalties for past delays.

Oct/Nov 2024

87. A bank's Net Interest Margin (NIM) is positively impacted by a higher proportion of CASA deposits because:
(A) CASA deposits typically have much longer and more stable maturity periods.
(B) The operational cost of servicing CASA deposits is almost negligible for the bank.
(C) CASA deposits are the primary source of significant fee-based income.
(D) The interest cost associated with CASA deposits is very low or zero.

Ans :

(D) The interest cost associated with CASA deposits is very low or zero.
Net Interest Margin (NIM) is the difference between interest earned and interest paid. CASA (Current Account Savings Account) deposits are a low-cost source of funds for a bank, as no interest is paid on current accounts and a low rate is paid on savings accounts. A higher share of these deposits reduces the bank's overall cost of funds, thereby improving its NIM.

May/June 2007

88. Match the account holder type in List-I with the specific account opening condition in List-II.

	List I		List II
P.	Pardanashin Woman	1.	Toe impression can be used as a mark
Q.	Incapacitated Person	2.	Cheque book facility is not provided
R.	Illiterate Person	3.	Nomination facility is not available
S.	Account in Representative Capacity	4.	A presumption of undue influence exists

(A) P-4, Q-1, R-2, S-3
(B) P-3, Q-2, R-1, S-4
(C) P-4, Q-2, R-1, S-3
(D) P-1, Q-4, R-3, S-2

Ans :

(A) P-4, Q-1, R-2, S-3
A contract with a Pardanashin Woman has a presumption of undue influence (P-4). An incapacitated person (e.g., loss of hands) can use a toe impression as a mark (Q-1). An illiterate person's account is not provided with a cheque book (R-2). Accounts opened in a representative capacity are not eligible for the nomination facility (S-3).

Oct/Nov 2016

89. Mr. Sharma, aged 62, has an annual income of ₹2,80,000 from pension. He also has FDs with a bank from which he expects to earn ₹60,000 as interest in the financial year. To avoid TDS, he submits Form 15H. Is the bank correct in accepting the form and not deducting TDS?
(A) Yes, as he is a senior citizen and his total income is below the taxable slab of ₹5 lakh.
(B) Yes, because Form 15H is a declaration that the bank must accept without verification.
(C) No, as his total income of ₹3,40,000 exceeds the senior citizen tax exemption limit.
(D) No, because as a pensioner, he should have submitted Form 15G instead of Form 15H.

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(B) Banks may use a simplified procedure for claims below a threshold limit.
To avoid undue hardship, banks have a simplified procedure for accounts without a survivor or nominee. Based on their internal risk management, they fix a threshold amount. For claims up to this limit, settlement can be made to the legal heir(s) based on simpler documentation, such as a letter of indemnity, without insisting on cumbersome legal documents.

May/June 2014

98. As per the RBI's conditions on the deregulation of SB interest rates, which action is permissible for a bank?
(A) Offering a uniform interest rate of 3% for all deposits up to ₹1 lakh.
(B) Offering 3% to customer A and 3.2% to customer B on the same day for their respective deposits of ₹5 lakh.
(C) Offering a lower interest rate for balances above ₹1 lakh compared to balances below ₹1 lakh.
(D) Announcing different rates for urban and rural branches for deposits of the same amount.

Ans :

(A) Offering a uniform interest rate of 3% for all deposits up to ₹1 lakh.
The RBI's directive on deregulation has two key conditions. First, a bank must offer a single, uniform interest rate on all savings deposits up to ₹1 lakh. Second, for deposits over ₹1 lakh, while a differential rate can be offered, the bank cannot discriminate between similar deposits. Option (A) directly reflects the first condition. Options (B) and (D) are clear examples of discrimination prohibited by the second condition.

Oct/Nov 2022

99. Which of the following statements correctly describes the process of monitoring third-party credits in newly opened accounts?
(A) All third-party credits are strictly prohibited for the initial six-month period.
(B) Third-party credits are allowed only after obtaining written permission from the introducer.
(C) The bank must take steps to verify the genuineness of third-party credits.
(D) Verifying third-party credits is the sole legal responsibility of the account holder.

Ans :

(C) The bank must take steps to verify the genuineness of third-party credits.
As part of the enhanced due diligence for newly opened accounts, especially current accounts, the bank has a responsibility to monitor transactions. The text specifies that in case third-party credits are allowed, the bank itself must take steps to verify the genuineness of these transactions to prevent potential money laundering or fraudulent activities.

May/June 2025

100. According to the provided source, a high CASA ratio directly leads to:
(A) Higher operational costs due to increased transaction volumes.
(B) A lower Net Interest Margin (NIM) due to competitive pressures.
(C) Increased competition from foreign banks for retail deposits.
(D) A lower overall cost of funds, which improves profitability.

Ans :

(D) A lower overall cost of funds, which improves profitability.
The source explicitly states that a high CASA ratio is beneficial because it consists of low-cost or no-cost deposits. This directly "brings down the overall cost of funds". Consequently, the bank can achieve a better Net Interest Margin (NIM) and enhance its profitability, making it more competitive and better placed to perform financially.

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(D) I, III, and IV

Ans :

(C) I, II, and IV
For a joint account of illiterates, strict conditions apply. They must be close relatives (I). Operations must be joint (II). No cheque book facility is provided under any circumstance (III is incorrect). All holders must be personally present for withdrawals (IV). These measures are in place to safeguard the interests of the vulnerable account holders.

May/June 2023

94. What is the primary reason banks discourage the likely misuse of current accounts by companies or firms that enjoy credit facilities with other banks?
(A) To avoid the high operational costs associated with inter-bank transactions.
(B) To actively promote the use of business savings accounts instead.
(C) To strictly comply with international anti-money laundering norms.
(D) To enforce credit discipline and prevent siphoning of funds.

Ans :

(D) To enforce credit discipline and prevent siphoning of funds.
Before opening a current account, banks must ensure the applicant firm does not enjoy credit facilities elsewhere. This procedure is designed to discourage misuse of accounts, such as siphoning funds or circumventing the monitoring associated with credit facilities. It is a measure to enforce credit discipline and prevent the deliberate avoidance of lender oversight.

Oct/Nov 2018

95. Based on the legal opinion from the IBA mentioned in the source, how can a person who cannot sign due to the loss of both hands execute a signature?
(A) By making a mark, such as a toe impression, which is legally valid.
(B) They cannot execute a signature and must appoint a power of attorney holder.
(C) A recorded verbal consent is considered a legally valid signature substitute.
(D) A close relative can sign on their behalf in the presence of a bank witness.

Ans :

(A) By making a mark, such as a toe impression, which is legally valid.
The IBA's legal opinion, referencing the General Clause Act and a Supreme Court ruling, clarifies the definition of "Sign". It explicitly includes a "Mark". This means a signature can be executed through any mark placed by the person, including a toe impression, making it a legally valid method for individuals who cannot sign by hand.

May/June 2019

96. What is the correct chronological order of steps for reactivating an inoperative current account?
1. Bank verifies the reasons and documents.
2. Bank makes the account operative.
3. Customer submits fresh KYC documents.
4. Customer explains the reasons for non-operation.

(A) 3,4,1,2
(B) 4, 3, 1, 2
(C) 4,1,3,2
(D) 3,1,4,2

Ans :

(B) 4, 3, 1, 2
To reactivate an inoperative account, the customer must first approach the bank and provide the reasons for the period of non-operation. They then need to submit fresh, updated KYC documents. The bank will then verify both the reasons and the documents. Once satisfied, the bank will change the account's status back to operative.

Oct/Nov 2006

97. Which statement is true regarding the settlement of claims for a deceased depositor's account that has neither a survivorship clause nor a nomination?
(A) The bank will not settle any claim, regardless of amount, without a court order.
(B) Banks may use a simplified procedure for claims below a threshold limit.
(C) The funds are immediately transferred to the Depositor Education and Awareness (DEA) Fund.
(D) The claim is settled in favour of the person who possesses the original passbook and cheque book.

Ans :

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or income. This ensures financial stability and reduces default risk.

Oct/Nov 2008

13. For high-income home loan applicants, what is the minimum Net Take Home Pay (NTHP) that some banks might consider?
(A) 40% of gross income
(B) 30% of gross income
(C) 15% of gross income
(D) 25% of gross income

Ans :

(C) 15% of gross income
While the standard norm for Net Take Home Pay is around 40% of gross income, banks may relax this requirement for high-income applicants. Since their absolute disposable income remains substantial even with a lower NTHP percentage, some banks are willing to consider a lesser take-home pay, which can be as low as 15% of gross income.

May/June 2012

14. Mr. Verma has a gross monthly income of ₹1,20,000 and is applying for a home loan with a proposed EMI of ₹75,000. He has no other existing deductions. Based on the general norm for Net Take Home Pay (NTHP), what is the likely outcome of his eligibility assessment?
(A) He is eligible as his NTHP is above 35% of his gross income.
(B) He is eligible because he is a high-income applicant.
(C) He is ineligible as the EMI exceeds 50% of his gross income.
(D) He is ineligible as his NTHP is below the general requirement of 40% of gross income.

Ans :

(D) He is ineligible as his NTHP is below the general requirement of 40% of gross income.
The general norm requires NTHP to be at least 40% of gross income. The required NTHP for Mr. Verma is 40% of ₹1,20,000, which is ₹48,000. His actual NTHP after the proposed EMI would be ₹1,20,000 - ₹75,000 = ₹45,000. Since his actual NTHP (₹45,000) is less than the required minimum (₹48,000), he is unlikely to be eligible.

Oct/Nov 2019

15. What is the minimum margin (borrower's contribution) required for a home loan of ₹28 Lakh for a first house, as per RBI's LTV norms?
(A) 10%
(B) 25%
(C) 20%
(D) 15%

Ans :

(A) 10%
According to the stipulated Loan-to-Value (LTV) norms, the margin requirement for a home loan is linked to the loan amount. For loans up to ₹30 Lakh, the maximum LTV is 90%, which means the borrower must contribute a minimum margin of 10%. Therefore, for a loan of ₹28 Lakh, the required margin would be 10%.

May/June 2016

16. An individual is seeking a home loan of ₹70 Lakh for their first house. What is the applicable margin percentage they would need to contribute?
(A) 10%
(B) 20%
(C) 25%
(D) 30%

Ans :

(B) 20%
The margin requirements for home loans are tiered based on the loan amount. For loans above ₹30 Lakh and up to ₹75 Lakh, the Reserve Bank of India has stipulated a maximum Loan-to-Value (LTV) ratio of 80%. This translates to a mandatory minimum margin or down payment of 20% to be brought in by the borrower.

Oct/Nov 2012

17. For a home loan amounting to ₹95 Lakh for a first house, what is the minimum margin that the borrower is required to bring in?
(A) 10%
(B) 25%
(C) 15%
(D) 20%

Ans :

(B) 25%
As per the regulatory guidelines for home loan financing, the margin contribution increases for higher value loans. For any home loan amount exceeding ₹75 Lakh, the maximum permissible

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CHAPTER 9
Important Retail Asset Products

Oct/Nov 2014

1. Retail banking products can be broadly classified into which of the following categories?
(A) Only retail liability products and retail asset products
(B) Retail liability products, retail asset products, and other products/services
(C) Only retail asset products and third-party products
(D) Savings products, loan products, and investment products

Ans :

(B) Retail liability products, retail asset products, and other products/services
Retail banking encompasses a wide range of offerings. These are broadly categorized into three main groups: retail liability products like savings and deposit accounts; retail asset products, which primarily consist of various types of loans; and other ancillary products and services such as credit cards, internet banking, and distribution of third-party products like insurance and mutual funds.

May/June 2021

2. Which of the following are considered retail asset products?
(A) Home Loans, Vehicle Loans, and Personal Loans
(B) Savings Accounts, Current Accounts, and Term Deposits
(C) Credit Cards, Debit Cards, and ATM Cards
(D) Mutual Funds, Life Insurance, and Gold Bonds

Ans :

(A) Home Loans, Vehicle Loans, and Personal Loans
Retail asset products are essentially loans and advances provided by banks to individual customers, which create an asset for the bank. Key examples include Home Loans for property purchase, Vehicle Loans for cars and two-wheelers, Educational Loans for higher studies, Personal Loans for various personal expenses, and receivables from credit card usage, which are a form of unsecured credit.

Oct/Nov 2005

3. Which of the following services are broadly covered under the 'Other Products/Services' category in retail banking?
(A) Home loans for property acquisition and personal loans for consumer needs
(B) Primary deposit instruments such as savings accounts and term deposit accounts
(C) Credit Cards, Internet Banking, and the distribution of third-party products
(D) Specialized credit facilities like construction loans and home renovation loans

Ans :

(C) Credit Cards, Internet Banking, and the distribution of third-party products
The 'Other Products/Services' category in retail banking includes facilities that go beyond basic deposit and loan products. This segment covers payment services like Credit and Debit Cards, digital channels such as Internet and Mobile Banking, Depository Services for holding securities, and the distribution of third-party financial products like insurance policies and mutual funds to retail customers.

May/June 2018

4. Personal loans are typically granted by banks for which of the following purposes?
(A) Financing the purchase of commercial vehicles, heavy equipment, or other business assets
(B) Funding the construction of a new house or the acquisition of a plot for residential purposes
(C) Supporting a new business venture or providing for a company's working capital needs
(D) Meeting personal expenses such as buying consumer durables, marriage, or travel

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Ans :

(D) Meeting personal expenses such as buying consumer durables, marriage, or travel
Personal loans are versatile credit facilities provided to individuals to meet a variety of personal, non-business-related expenses. Common purposes for availing these loans include purchasing consumer durables (white goods), funding significant life events like a family marriage, covering unforeseen medical expenses, or financing leisure tours and travel, offering financial flexibility to the borrower for immediate needs.

Oct/Nov 2022

5. What was the initial lending practice of banks regarding the purpose of home loans?
(A) Loans were approved only for commercial properties and industrial estates
(B) No restrictions were placed on the number of properties an individual could finance
(C) Loans were approved for an individual's family or own residence only
(D) Loans were primarily given for purchasing agricultural land or farmhouses

Ans :

(C) Loans were approved for an individual's family or own residence only
Initially, when banks began offering home loans, the lending policy was quite restrictive. The primary and often sole purpose for which a home loan was approved was for the applicant to purchase or construct a house intended for their own or their immediate family's residence. This practice reflected a conservative approach focused on primary housing needs.

May/June 2009

6. What is the current stipulation regarding the end-use of funds disbursed under a home loan?
(A) The funds must be used for purchasing a primary residence only.
(B) The funds should not be used for commercial purposes.
(C) The funds can be used for any purpose, including business expansion.
(D) The funds can only be used if the applicant does not own any other property.

Ans :

(B) The funds should not be used for commercial purposes.
While lenders have become more flexible and now approve home loans even if the applicant owns multiple properties, there is a crucial stipulation on the end-use of the funds. The amount sanctioned as a home loan is strictly intended for residential property purposes, such as purchase or construction, and must not be diverted for any commercial activities.

Oct/Nov 2011

7. Which of the following statements regarding the eligibility for a home loan is incorrect?
(A) Salaried employees, professionals, and self-employed persons are generally considered eligible
(B) Requests from Non-Resident Indians (NRIs), PIOs, and HUFs are also considered by banks
(C) Proprietorship firms and Partnership firms can apply for loans for their employees' housing
(D) Only individuals with a single, verifiable source of income are considered eligible for a loan

Ans :

(D) Only individuals with a single, verifiable source of income are considered eligible for a loan
Home loan eligibility is broad, encompassing various categories of applicants like salaried individuals, professionals, and self-employed persons. Banks also extend these loans to entities such as NRIs, PIOs, HUFs, and firms for their employees. The assessment focuses on repayment capacity, which can be derived from multiple sources of income, not just a single source, making that restriction incorrect.

May/June 2013

8. Home loans are sanctioned by banks for which combination of the following purposes?
i. To purchase/construct a house/flat
ii. To renovate/extend/repair an existing house/flat
iii. To purchase a plot of land for construction of a house
iv. To acquire household articles for furnishing the house/flat
(A) i, ii, iii, and iv
(B) i and ii only

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(C) i, ii, and iii only
(D) ii, iii, and iv only

Ans :

(A) i, ii, iii, and iv
Banks offer home loans for a comprehensive range of housing-related needs. This includes not only the primary purpose of purchasing or constructing a new house or flat but also financing the renovation or extension of an existing property. Furthermore, loans can be granted for purchasing a plot for future construction and for acquiring household articles for furnishing.

Oct/Nov 2025

9. In the context of the quantum of a home loan, for which purpose do banks generally not have an upper ceiling?
(A) For repairs/renovation/extension to a house/flat
(B) For the purchase of a plot
(C) For the construction/purchase of a house/flat
(D) For the purchase of household articles for furnishing

Ans :

(C) For the construction/purchase of a house/flat
While the loan amount for purposes like repairs, plot purchase, or furnishing often varies from bank to bank and may have specific limits, many banks do not stipulate a mandatory upper ceiling for the quantum of loan for the construction or purchase of a house or flat. The final loan amount is determined by the borrower's repayment capacity.

May/June 2007

10. How is the eligible home loan quantum for salaried employees primarily calculated by banks?
(A) Based on documents like salary slips, Form-16, and IT returns
(B) Based on the employee's official designation and total years of confirmed service
(C) Based on the cash accruals and profitability ratios of the employing company
(D) Based on a flat percentage of the property's assessed market value or agreement value

Ans :

(A) Based on documents like salary slips, Form-16, and IT returns
To determine the repayment capacity and thus the eligible loan amount for a salaried individual, banks rely on verifiable income proof. The primary documents used for this assessment are the applicant's recent salary slips, Form-16 (which details salary and tax deductions), and filed Income Tax (IT) returns, which together provide a clear picture of their stable income.

Oct/Nov 2016

11. For entities like HUF, Proprietorship, or Partnership firms, what is the basis for calculating the eligible finance for a home loan?
(A) Based on the personal net worth of the partners or Karta
(B) Based on the number of employees in the firm
(C) Based on the firm's gross turnover
(D) Based on the firm's cash accruals

Ans :

(D) Based on the firm's cash accruals
When assessing the eligibility of non-individual entities such as a Hindu Undivided Family (HUF), proprietorship, or partnership firm for a home loan (e.g., for employee quarters), banks evaluate their financial health and repayment capacity. This is primarily done by analyzing the business's cash accruals, which reflect the actual cash generated and available for servicing debt.

May/June 2024

12. What is the general norm regarding the Net Take Home Pay (NTHP) for a home loan applicant?
(A) It should not be less than 60% of the gross income.
(B) It should not be less than 40% of the gross income.
(C) It should not be more than 50% of the gross income.
(D) It is generally fixed at 25% of the gross income for all applicants.

Ans :

(B) It should not be less than 40% of the gross income.
To ensure a borrower has sufficient disposable income after paying the proposed loan's EMI, banks apply a Net Take Home Pay (NTHP) norm. Generally, an applicant's net income, after all deductions including the new EMI, should not be less than 40% of their gross monthly salary

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Ans :

(C) No, as his total income of ₹3,40,000 exceeds the senior citizen tax exemption limit.
Form 15H can be submitted by a senior citizen only if their total income for the financial year will not exceed the maximum amount which is not chargeable to income tax. For a senior citizen (under 80), this limit is ₹3 Lakh. Since Mr. Sharma's total income (₹2,80,000 + ₹60,000 = ₹3,40,000) exceeds this limit, he is not eligible to submit Form 15H.

May/June 2012

90. A '2 in 1' account has a threshold of ₹25,000. The balance is ₹80,000. The bank creates an FD for the surplus. Later, the account holder issues a cheque for ₹40,000 when the SB balance is only ₹10,000. What is the most likely action the bank will take?
(A) Honour the cheque by using the reverse sweep facility to break the linked FD.
(B) Dishonour the cheque immediately due to insufficient funds in the savings account.
(C) Honour the cheque by sanctioning a temporary overdraft of ₹30,000 against the FD.
(D) Contact the customer and request an immediate deposit of ₹30,000 to clear the cheque.

Ans :

(A) Honour the cheque by using the reverse sweep facility to break the linked FD.
This scenario describes the function of a Reverse Sweep facility. The account has a shortfall of ₹30,000 (₹40,000 cheque - ₹10,000 balance). The system will automatically break the linked FD, which was created from surplus funds, to the extent of the shortfall and transfer ₹30,000 to the savings account to honour the cheque.

Oct/Nov 2021

91. When considering a loan against a Recurring Deposit (RD), what is the specific condition mentioned in the text?
(A) The loan can be granted at any time after the first RD instalment has been paid.
(B) The loan amount is strictly capped at 50% of the total amount deposited so far.
(C) The loan is only granted against RDs with a total tenure of 5 years or more.
(D) The loan is allowed only if the RD account has existed for at least one year.

Ans :

(D) The loan is allowed only if the RD account has existed for at least one year.
While banks can grant advances against recurring deposits, there is a specific condition attached to this facility. The text states that a loan against an RD should be allowed only after the RD account has been active and in existence for a minimum period of at least one year.

May/June 2005

92. Identify the correct statement regarding the services offered in Savings Bank accounts.
(A) All services like cheque clearing and ATM access are mandatorily free of cost for all customers.
(B) Free services are often conditional upon maintaining a stipulated average balance.
(C) Non-maintenance of average balance results in a penalty but does not affect free services.
(D) The exact combination of services is fixed by the RBI and cannot be altered by individual banks.

Ans :

(B) Free services are often conditional upon maintaining a stipulated average balance.
Banks fine-tune service combinations to meet customer needs. Many services are offered free or at concessional rates, but this is often conditional. Non-maintenance of the stipulated average balance usually disqualifies the account holder from agreed-upon free services, in addition to attracting a penalty, linking benefits to the account's value to the bank.

Oct/Nov 2009

93. A joint account is opened for two or more illiterates. Which of the following conditions must be met?
I. The account holders must be close relatives, not cousins.
II. Operations must be allowed jointly by all holders or survivors.
III. A cheque book facility can be provided if one holder can sign.
IV. All holders must come to the branch personally for withdrawals.
(A) I, II, and III
(B) II, III, and IV
(C) I, II, and IV

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Loan-to-Value (LTV) ratio is 75%. Consequently, the borrower is required to contribute a minimum margin of 25% of the property's value for such high-ticket loans.

May/June 2025

18. Match the home loan amount (List-I) with its corresponding minimum margin percentage (List-II) for a first house.

List-I (Loan Amount)

P. ₹25 Lakh

Q. ₹45 Lakh

R. ₹85 Lakh

List-II (Margin %)

1. 25%
2. 10%
3. 20%

(A) P-2, Q-3, R-1

(B) P-1, Q-2, R-3

(C) P-3, Q-1, R-2

(D) P-2, Q-1, R-3

Ans :

(A) P-2, Q-3, R-1

The margin requirements are tiered. For a loan of ₹25 Lakh (up to ₹30 Lakh), the margin is 10%. For a loan of ₹45 Lakh (above ₹30 Lakh and up to ₹75 Lakh), the margin is 20%. For a loan of ₹85 Lakh (above ₹75 Lakh), the margin is 25%. Therefore, the correct matching is P-2, Q-3, and R-1.

Oct/Nov 2023

19. According to RBI stipulations, what is the maximum Loan to Value (LTV) ratio for home loans above ₹30 Lakh and up to ₹75 Lakh?

(A) 90%

(B) 75%

(C) 80%

(D) 70%

Ans :

(C) 80%

The Reserve Bank of India (RBI) has defined specific Loan to Value (LTV) ratios to regulate housing finance and manage risk. For the loan slab above ₹30 Lakh and up to ₹75 Lakh, the maximum LTV permitted is 80%. This means the bank can finance up to 80% of the property's value, with the borrower contributing the remaining 20%.

NODIA

May/June 2010

20. Based on the provided source, under what specific condition may a bank include stamp duty and registration charges in the property cost for LTV calculation?

Source: "Banks should not include stamp duty, registration and other documentation charges in the cost of the housing property they finance so that the effectiveness of LTV norms is not diluted. However, in cases where the cost of the house/dwelling units does not exceed ₹10 lakh, bank may add stamp duty, registration and other documentation charges to the cost of the house/dwelling unit for the purpose of calculating LTV ratio."

(A) For all home loan applications, as a customer-friendly measure to reduce the borrower's upfront cost

(B) Exclusively when the final sanctioned loan amount is determined to be less than the ₹10 lakh limit

(C) Under no circumstances, as the RBI explicitly states this practice would dilute the effectiveness of LTV norms

(D) In affordable housing cases where the property cost does not exceed ₹10 lakh

Ans :

(D) In affordable housing cases where the property cost does not exceed ₹10 lakh

The general rule is to exclude ancillary charges like stamp duty and registration from the property cost to maintain the integrity of LTV norms. However, the provided text specifies a clear exception. Banks are permitted to add these charges to the property cost for LTV calculation only in affordable housing cases where the total cost does not exceed ₹10 lakh.

Oct/Nov 2006

21. Who holds the discretion to determine the Rate of Interest (ROI) for home loans?

(A) The Indian Banks' Association (IBA)

(B) The Ministry of Finance

(C) The individual banks themselves

(D) The National Housing Bank (NHB)

Ans :

(C) The individual banks themselves

While the Reserve Bank of India provides the overall regulatory framework, it has left the determination of the specific Rate of Interest

(ROI) on home loans to the discretion of individual banks. Banks typically link their floating rates to an external benchmark like the repo rate or an internal benchmark, and the final rate varies based on competition and risk assessment.

May/June 2019

22. What is the standard form of security required by banks for a home loan?
(A) Pledge of the borrower's shares, mutual funds, and other marketable financial securities
(B) Mortgage or Equitable Mortgage on the land, flat, or house being financed
(C) Hypothecation of a high-value vehicle owned by the borrower or an approved guarantor
(D) An unconditional and irrevocable third-party guarantee from a high-net-worth individual

Ans :

(B) Mortgage or Equitable Mortgage on the land, flat, or house being financed
The primary and most direct form of security for a home loan is a charge created on the property being financed. This is achieved through a mortgage, most commonly an Equitable Mortgage, which involves depositing the title deeds of the land, flat, or house with the bank. This gives the bank legal recourse against the property in case of default.

Oct/Nov 2020

23. If a mortgage on the property cannot be created at the time of disbursement, what alternative security measures may a bank accept?
(A) An undertaking from the borrower to create a mortgage later
(B) A post-dated cheque for the full loan amount
(C) A simple demand promissory note signed by the borrower
(D) Creating a charge on alternative assets or obtaining a third-party guarantee

Ans :

(D) Creating a charge on alternative assets or obtaining a third-party guarantee
In situations where creating an immediate mortgage on the financed property is not feasible at the time of disbursement, banks may proceed by securing the loan through other means. This can include creating a charge on other assets owned by the borrower or by obtaining a guarantee from a creditworthy third party as an interim security measure.

May/June 2005

24. How is disbursement typically handled for home loans on incomplete or under-construction housing projects?
(A) Disbursement is closely linked to the stages of construction
(B) 100% upfront disbursement to the builder
(C) Disbursement is made in a lump sum to the borrower's savings account
(D) 50% upfront and 50% on completion of the project

Ans :

(A) Disbursement is closely linked to the stages of construction
To mitigate risk and ensure proper end-use of funds, banks do not disburse the entire loan amount upfront for under-construction properties. Instead, the disbursement is made in tranches or installments that are directly linked to the progress of the construction. Each payment is released after verifying that a specific stage of construction has been completed.

Oct/Nov 2017

25. What is the maximum repayment period, including the moratorium, that is generally considered by banks for home loans?
(A) 15 years
(B) 20 years
(C) 30 years
(D) 25 years

Ans :

(C) 30 years
Home loan products are designed to be highly flexible to make them affordable for borrowers. A key feature of this flexibility is the extended repayment tenure. Banks generally offer a maximum repayment period of up to 30 years, a duration that includes any initial moratorium period granted before the Equated Monthly Instalments (EMIs) begin.

May/June 2014

26. What is the maximum moratorium period generally allowed by banks for a home loan taken for the construction of a house?
(A) 18 months
(B) 3 months

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(C) 6 months
(D) 12 months

Ans :

(A) 18 months
Banks provide a moratorium or 'EMI holiday' to allow the borrower time before repayment begins. For home loans sanctioned for the construction of a house, which is a time-consuming process, a maximum moratorium period of 18 months is generally permitted. This period allows for the construction to reach an advanced stage before the repayment obligation starts.

Oct/Nov 2013

27. For a home loan taken for the purchase of a ready-to-move-in flat, what is the typical maximum moratorium period allowed by banks?
(A) 18 months
(B) 12 months
(C) 6 months
(D) 3 months

Ans :

(D) 3 months
The moratorium period is linked to the purpose of the loan. Since purchasing a ready flat does not involve a lengthy construction phase, the time needed before the borrower can occupy it is minimal. Therefore, for the purchase of a ready flat, banks generally allow a much shorter maximum moratorium period of 3 months before EMI payments commence.

May/June 2021

28. Consider the following statements regarding home loan repayment age limits:
Statement 1: For salaried persons, the loan should normally be repaid before their date of retirement.
Statement 2: For other individuals (non-salaried), the loan should normally be repaid before they attain 65 years of age.
(A) Both Statement 1 and Statement 2 are correct.
(B) Both Statement 1 and Statement 2 are incorrect.
(C) Only Statement 1 is correct.
(D) Only Statement 2 is correct.

Ans :

(A) Both Statement 1 and Statement 2 are correct.
Banks link the final repayment date of a home loan to the borrower's earning capacity and age. For salaried individuals, whose primary income ceases upon retirement, the loan tenure is structured to end before their retirement date. For self-employed individuals and other professionals, the general norm is to ensure the loan is fully repaid before they reach 65 years of age.

Oct/Nov 2018

29. Which of the following is a feature often provided in modern home loan products?
(A) Interest calculated on an annual reducing balance basis, which is an outdated but simple method
(B) Mandatory pre-payment charges on all types of fixed and floating rate home loans to discourage refinancing
(C) Flexible repayment options like the facility for step-up or step-down EMIs
(D) Strict exclusion of the income of any close relatives, including spouse, for loan enhancement purposes

Ans :

(C) Flexible repayment options like the facility for step-up or step-down EMIs
To cater to the varying income streams of borrowers over their life cycle, many banks offer flexible repayment options. One such feature is the facility for step-up or step-down EMIs. Step-up EMIs start lower and increase over time, suiting young professionals, while step-down EMIs are the reverse, suiting those nearing retirement with higher current incomes.

May/June 2017

30. What is the general practice regarding pre-payment charges on floating rate home loans?
(A) A fixed penalty of 2% is charged.
(B) Charges are levied if prepayment is from another bank's loan.
(C) Charges are at the discretion of the branch manager.
(D) No pre-payment charges are levied.

Ans :

(D) No pre-payment charges are levied.
As per regulatory guidelines and common banking practice, there are no pre-payment charges or penalties on home loans that are on a floating rate of interest. This allows borrowers the flexibility to prepay their loan, either partially or in full, using their own surplus funds at any

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Oct/Nov 2008

67. According to the provided source, the purchase of consumer durables is a specified purpose for which type of personal loan?
Source:
1. Clean/Unsecured loans Purpose: Marriage expenses, Medical Expenses, Education of self/spouse/children, Repairs/renovation.
2. Secured loans Purpose: For meeting social and financial commitments, Purchase of consumer durables.

(A) Both Clean/Unsecured and Secured loans
(B) Only Clean/Unsecured loans
(C) Only Secured loans
(D) Neither type of personal loan

Ans :

(C) Only Secured loans
The provided table clearly categorizes the purposes for different types of personal loans. While unsecured loans are meant for expenses like marriage, medical needs, and education, the purpose of purchasing consumer durables is explicitly listed under the category of secured personal loans. This implies that such purchases are typically financed against some form of security.

May/June 2010

68. Which of the following is typically NOT considered a valid purpose for a clean/unsecured personal loan?
(A) Marriage expenses of a dependent child
(B) Medical expenses for a spouse
(C) Repairs or renovation of an existing flat
(D) Purchase of consumer durables

Ans :

(D) Purchase of consumer durables
Clean or unsecured personal loans are generally intended for meeting personal exigencies like marriage, medical costs, or education. As per the provided text, the purchase of consumer durables is listed as a purpose for secured loans, not for clean/unsecured loans. This distinction is made based on the nature of the expense and the associated risk profile.

Oct/Nov 2019

69. Which combination of the following can be accepted as collateral security for a secured personal loan?
i. Pledge of gold ornaments
ii. Assignment of LIC policies
iii. Hypothecation of assets acquired
iv. A personal IOU note

(A) i and ii only
(B) Hypothecation of assets acquired
(C) i, ii, and iii only
(D) i, ii, iii, and iv

Ans :

(C) i, ii, and iii only
For secured personal loans, banks accept various forms of collateral to mitigate risk. These include the pledge of tangible assets like gold ornaments, the assignment of financial instruments like National Savings Certificates (NSC) or LIC policies, and the hypothecation of the very assets acquired with the loan funds. A personal IOU note is not considered collateral security.

May/June 2016

70. What is the general repayment period, expressed in Equated Monthly Instalments (EMIs), for an unsecured personal loan?
(A) 12 to 24 EMIs
(B) 36 to 60 EMIs
(C) 24 to 48 EMIs
(D) Maximum 120 EMIs

Ans :

(B) 36 to 60 EMIs
Due to their unsecured nature and higher risk, personal loans are typically offered for shorter tenures compared to secured loans like home loans. The repayment period for a clean or unsecured personal loan is generally structured over 36 to 60 Equated Monthly Instalments (EMIs), which corresponds to a tenure of three to five years.

Oct/Nov 2024

71. What is the maximum repayment period generally stipulated for secured personal loans?
(A) Maximum 36 EMIs
(B) Maximum 84 EMIs
(C) Maximum 120 EMIs
(D) Maximum 60 EMIs

Ans :

(D) Maximum 60 EMIs
Even for personal loans that are secured by collateral, the repayment tenure is kept relatively short. While the security reduces the bank's risk, these loans are still intended for medium-

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a property. However, providing finance for the purchase of agricultural land, especially for speculative investment purposes, falls outside the scope of permissible housing finance and is generally not allowed.

Oct/Nov 2015

35. When providing finance to public agencies for land acquisition and development, what is the condition for ensuring quick re-cycling of funds?
(A) The project must be completed within ten years.
(B) The land valuation must be at its historical cost.
(C) The project should be completed within three years.
(D) The public agency must be a centrally owned entity.

Ans :

(C) The project should be completed within three years.
When banks finance public agencies (not private builders) for large-scale land acquisition and development projects, a key condition is the timely completion of the project. This is to ensure a quick re-cycling of the bank's funds for optimal utilization. The guideline stipulates that such projects should be completed as early as possible, and in any case, within three years.

May/June 2006

36. On which date was the Pradhan Mantri Awas Yojana (Urban) Mission launched?
(A) 25th June 2014
(B) 15th August 2015
(C) 2nd October 2014
(D) 25th June 2015

Ans :

(D) 25th June 2015
The Pradhan Mantri Awas Yojana (Urban) or PMAY(U), a flagship mission of the Government of India, was launched on 25th June 2015. The primary objective of this mission was to address the urban housing shortage by ensuring a pucca house for all eligible urban households by the year 2022, which was later extended.

Oct/Nov 2024

37. As per the PMAY(U) guidelines, what is the maximum carpet area for a house for the Economically Weaker Section (EWS)?
(A) 60 sq. mt.
(B) 90 sq. mt.
(C) 30 sq. mt.
(D) 120 sq. mt.

Ans :

(C) 30 sq. mt.
The PMAY(U) guidelines define specific parameters for houses under different categories to ensure they cater to the intended beneficiaries. For the Economically Weaker Section (EWS), the size of a house could be up to 30 square meters of carpet area. However, the guidelines also provide flexibility to States and Union Territories to enhance this size in consultation with the Ministry.

May/June 2020

38. What is the mandatory provision under PMAY(U) regarding property ownership, aimed at empowering women?
(A) The house must be owned exclusively by the male head of the family, as per traditional succession norms
(B) The female head of the family must be the sole owner or a co-owner of the house
(C) Ownership is automatically granted to the eldest earning member of the family, irrespective of their gender
(D) The property must be registered in the name of a government housing agency for an initial lock-in period

Ans :

(B) The female head of the family must be the sole owner or a co-owner of the house
To promote women's empowerment and provide them with housing security, the PMAY(U) mission introduced a significant mandatory provision. It requires that for EWS and LIG beneficiaries, the house acquired under the scheme must be in the name of the female head of the household or in the joint name of the male head and his wife.

Oct/Nov 2009

39. The 'Housing for All by 2022' mission was launched against the backdrop of a projected urban housing shortage of how many units?
(A) 1.12 crore
(B) 1.80 crore
(C) 2.95 crore
(D) 2.00 crore

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period to allow the borrower time to complete the intended work before repayment begins. The standard moratorium granted for these types of loans is generally 3 months from the date of disbursement, after which the EMI payments are scheduled to start.

May/June 2008

58. What is the common collaborative model that banks adopt for sanctioning and pricing car loans?

(A) A collaborative model involving the manufacturer, the dealer, and the financier (bank)

(B) A bilateral model involving only the bank and the individual borrower without any third-party involvement

(C) A regulatory model involving the bank, the Regional Transport Office (RTO), and the designated insurance company

(D) A subsidized model involving the bank and a government-backed financing agency to promote electric vehicles

Ans :

(A) A collaborative model involving the manufacturer, the dealer, and the financier (bank)

To achieve competitive pricing and higher sales volumes, car loan financing often involves a tripartite arrangement. This model includes the vehicle manufacturer, the authorized dealer, and the financier (the bank). By collaborating on pricing, margins, and promotions, this structure results in finer pricing and attractive loan offers for the end customer, benefiting all three parties.

Oct/Nov 2013

59. Which of the following entities is generally mentioned as not eligible for auto/vehicle loans from banks?

(A) Salaried employees working in public or private sector companies

(B) Business entities such as Proprietorships and Partnership Firms

(C) Non-Resident Indians (NRIs), typically with a resident co-borrower

(D) Hindu Undivided Families (HUFs) as a legal entity

Ans :

(D) Hindu Undivided Families (HUFs) as a legal entity

Bank guidelines for auto loans specify a wide range of eligible borrowers, including salaried individuals, professionals, firms, and even NRIs (usually with a resident co-borrower). However, Hindu Undivided Families (HUFs) are often explicitly mentioned in the features table as being not eligible to apply for these vehicle loans, unlike their eligibility for home loans.

May/June 2013

60. What is the typical margin requirement stipulated by banks for a loan to purchase a new car?

(A) 5%

(B) 10%

(C) 20%

(D) 25%

Ans :

(B) 10%

For the purchase of new cars, the margin or down payment required from the borrower is relatively low due to the asset's high resale value and low initial depreciation. Banks generally stipulate a margin of 10% of the vehicle's on-road cost, which may include the ex-showroom price, first-year insurance, road tax, and registration fees.

Oct/Nov 2012

61. What is the general margin requirement for a loan to purchase a second-hand or used car?

(A) 10%

(B) 15%

(C) 25% to 30%

(D) 40% to 50%

Ans :

(C) 25% to 30%

Financing for second-hand cars carries a higher risk for banks due to factors like vehicle age, condition, and faster depreciation. To mitigate this risk, lenders require a significantly higher margin contribution from the borrower. The typical margin for a used car loan is in the range of 25% to 30% of the vehicle's valuation.

May/June 2015

62. What is the primary security required for an auto/vehicle loan?

(A) Mortgage of immovable property

(B) Pledge of financial securities

(C) Third-party guarantee

(D) Hypothecation of the vehicle being purchased

(D) They must not own a pucca house in their name in any part of India

Ans :

(D) They must not own a pucca house in their name in any part of India
The scheme allows an adult earning member, regardless of their marital status, to be considered a separate household and apply for the subsidy. However, this is subject to a crucial condition: the individual must not own a pucca (all-weather) house in their own name in any part of India. This ensures the benefit reaches those who are genuinely without a home.

May/June 2011

44. A married couple, both of whom are earning and meet the income eligibility for the LIG category, wish to apply for two separate home loans under PMAY-CLSS to purchase two different flats. What is the rule regarding their eligibility?
(A) Both are eligible for separate houses with subsidies as they are both earning members
(B) They are eligible for a single house only, either in joint or single ownership
(C) Only one of them, chosen by the couple, can apply for a house under the scheme
(D) They can get two houses but the interest subsidy will be provided for only one of them

Ans :

(B) They are eligible for a single house only, either in joint or single ownership
The PMAY-CLSS guidelines specify that in the case of a married couple, either one of the spouses or both together in joint ownership are eligible for a single house under the scheme. This is subject to the household meeting the income eligibility criteria. The scheme does not permit a married couple to acquire two separate subsidized houses.

Oct/Nov 2007

45. What is the rate of interest subsidy provided under the Credit Linked Subsidy Scheme (CLSS) for the Low Income Group (LIG) category?
(A) 3%
(B) 4%
(C) 6.5%
(D) 9%

Ans :

(C) 6.5%
The interest subsidy under CLSS is tiered based on the beneficiary's income group. For both the Economically Weaker Section (EWS) and the Low Income Group (LIG) categories, the government provides a substantial interest subsidy of 6.5%. This subsidy helps in significantly reducing the Equated Monthly Instalment (EMI), making home ownership more affordable for these segments.

May/June 2014

46. What is the annual household income criteria for a beneficiary to be classified under the MIG-I category of the PMAY-CLSS?
(A) Up to ₹3 lakh
(B) ₹3 lakh to ₹6 lakh
(C) ₹12 lakh to ₹18 lakh
(D) ₹6 lakh to ₹12 lakh

Ans :

(D) ₹6 lakh to ₹12 lakh
The PMAY-CLSS was expanded to include Middle Income Groups (MIG), which were further divided into two sub-categories. An applicant family is classified under the MIG-I category if their annual household income is above ₹6 lakh but does not exceed ₹12 lakh. This enabled a broader segment of the population to access the benefits of affordable housing.

Oct/Nov 2018

47. For a beneficiary in the MIG-II category under the PMAY-CLSS, what is the applicable interest subsidy rate?
(A) 3%
(B) 6.5%
(C) 4%
(D) 2.5%

Ans :

(A) 3%
The interest subsidy rate under the Credit Linked Subsidy Scheme (CLSS) is inversely related to the income level of the beneficiary. For the highest income slab covered, the Middle Income Group-II (MIG-II), which includes households with annual income from ₹12 lakh to ₹18 lakh, the applicable interest subsidy is 3% on the eligible loan amount.

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Ans :

(D) 2.00 crore

The comprehensive "Housing for All by 2022" mission was initiated based on projections from the Ministry of Housing and Urban Poverty Alleviation (MoHUPA). The total urban housing shortage was projected to be 2.00 crore units by 2022, comprising 1.80 crore slum households and 0.20 crore non-slum urban poor households, which the mission aimed to address.

May/June 2015

40. Based on requests from states and Union Territories, the implementation period of the PMAY scheme has been extended until which date?

(A) December 31, 2024
(B) March 31, 2023
(C) December 31, 2023
(D) March 31, 2024

Ans :

(A) December 31, 2024

Although the original target for the 'Housing for All' mission was 2022, the government decided to extend the implementation period to ensure the completion of all sanctioned houses. Based on the requests of various states and Union Territories, the scheme's period was extended till December 31, 2024, to meet the housing targets and commitments.

Oct/Nov 2021

41. The Credit Linked Subsidy Scheme (CLSS) under PMAY is implemented to expand institutional credit flow through which entities?

(A) Only through the two designated central nodal agencies, National Housing Bank (NHB) and HUDCO
(B) Only through the nationwide network of Scheduled Commercial Banks and their designated branches
(C) Through a wide network of Primary Lending Institutions (PLIs) like banks, HFCs, and RRBs
(D) Directly through empaneled private builders and real estate developers of the specific housing project

Ans :

(C) Through a wide network of Primary Lending Institutions (PLIs) like banks, HFCs, and RRBs

To facilitate the flow of credit to the urban poor for housing, the Credit Linked Subsidy Scheme (CLSS) component of PMAY is implemented through a wide network of financial institutions. These are collectively known as Primary Lending Institutions (PLIs) and include Scheduled Commercial Banks, Housing Finance Companies (HFCs), Regional Rural Banks (RRBs), and others identified by the Ministry.

May/June 2023

42. Based on the provided source, who would be considered an ineligible beneficiary for the PMAY scheme?

Source: "A beneficiary family will comprise husband, wife, unmarried sons and/or unmarried daughters. The beneficiary family should not own a pucca house (an all-weather dwelling unit) either in his/her name or in the name of any member of his/her family in any part of India."

(A) A family whose unmarried son already owns a pucca house in another state
(B) A family currently living in a rented house in a metropolitan city like Mumbai
(C) A nuclear family of a husband, wife, and a minor son, with no existing property
(D) An unmarried adult daughter living with her parents in a dilapidated kutcha house

Ans :

(A) A family whose unmarried son already owns a pucca house in another state

The PMAY beneficiary definition is strict regarding property ownership. The rule states that the beneficiary family, which includes the applicant, spouse, and unmarried children, should not own a pucca house anywhere in India, either in their own name or in the name of any family member. Therefore, if an unmarried son owns a house, the entire family becomes ineligible.

Oct/Nov 2011

43. Under the PMAY-CLSS, what is the condition for an adult earning member to be treated as a separate household?

(A) They must be married and living separately from their parents
(B) They must have a verifiable income above the LIG category limit
(C) They must have been living separately from their parents for at least one financial year

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Agency (CNA), the Primary Lending Institution (PLI) credits the entire subsidy amount upfront into the borrower's loan account. This directly reduces the principal outstanding, leading to a lower EMI for the borrower.

Oct/Nov 2023

53. The interest subsidy under CLSS is calculated based on the Net Present Value (NPV) at a specific discount rate. What is this rate?
(A) 6.5%
(B) 7.5%
(C) 9%
(D) The bank's MCLR

Ans :

(C) 9%
The calculation of the lump-sum interest subsidy involves determining its Net Present Value (NPV). The guidelines specify that the interest subsidy is to be calculated at a discount rate of 9% NPV over the maximum subsidy tenure of 20 years or the actual tenure, whichever is lower. This standardizes the subsidy calculation across all lending institutions.

May/June 2005

54. For an employed person to be eligible for a Home Improvement Loan, what is the minimum period of confirmed service generally required?
(A) One year
(B) Three years
(C) Two years
(D) Five years

Ans :

(B) Three years
To ensure income stability and repayment capacity for a Home Improvement Loan, banks stipulate a minimum employment tenure. For salaried or employed individuals, it is generally required that they have at least three years of confirmed service. This provides the bank with confidence in the borrower's continued employment and ability to service the loan over its term.

Oct/Nov 2006

55. What is the typical range of margin (borrower's contribution) required for a Home Improvement Loan?
(A) 5% to 10%
(B) 10% to 20%
(C) No margin is required.
(D) 20% to 50%

Ans :

(D) 20% to 50%
Unlike high LTV primary home purchase loans, home improvement loans typically require a higher contribution from the borrower. The margin for such loans, which are meant for repairs, renovation, or upgradation, generally varies from bank to bank but is typically in the range of 20% to 50% of the estimated cost of the work.

May/June 2017

56. Which of the following correctly identifies the purpose of a Home Decor Loan?
(A) For furnishing the house, interior decoration, and buying air conditioners
(B) For major structural repairs, civil works, and the extension of an existing house or flat
(C) For purchasing an adjacent plot of land with the intent to expand the house's total area
(D) For paying off outstanding property taxes and other statutory dues owed to government bodies

Ans :

(A) For furnishing the house, interior decoration, and buying air conditioners
Home Decor Loans are specifically designed to finance the aesthetic and functional enhancement of a residence. The funds are intended for purposes such as furnishing a house or flat, undertaking interior decoration projects, and purchasing items like air conditioners. These loans are distinct from home improvement loans, which cover more structural aspects like repairs and renovation.

Oct/Nov 2016

57. What is the standard moratorium period provided for both Home Improvement and Home Decor loans?
(A) 1 month
(B) 6 months
(C) 3 months
(D) 12 months

Ans :

(C) 3 months
For both Home Improvement and Home Decor loans, banks typically provide a short moratorium

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point during the loan tenure without incurring any additional cost.

Oct/Nov 2007

31. According to standard banking procedures for housing finance, who is responsible for valuing the property offered as security?

(A) A qualified professional valuer from the bank's approved panel

(B) The borrower's own chosen and paid-for real estate agent who provides a market certificate

(C) The bank's local branch manager, who assesses the value based on area knowledge and recent sales

(D) A government-appointed district revenue officer who provides a valuation based on circle rates

Ans :

(A) A qualified professional valuer from the bank's approved panel

To ensure an objective and accurate assessment of the property's market value, which is crucial for determining the Loan-to-Value ratio, banks rely on professional expertise. The valuation of the property to be financed must be conducted by a qualified valuer who is on the bank's approved panel. This process ensures an unbiased valuation for risk assessment purposes.

May/June 2008

32. What is the specific condition under which a bank can grant a loan for a property located in an unauthorized colony?

(A) If the borrower provides sufficient alternative liquid collateral, such as a Fixed Deposit, to fully cover the loan

(B) Only after the colony has been officially regularized and all development charges are paid

(C) If the loan amount is for an affordable housing unit and is below the ₹10 lakh specified limit

(D) If a non-binding letter of comfort is provided by the local municipal authority for the specific property

Ans :

(B) Only after the colony has been officially regularized and all development charges are paid

Banks are prohibited from financing properties that lack clear legal status, as this poses a significant risk. Therefore, a loan cannot be sanctioned for a property in an unauthorized colony. Financing can only be considered once the colony's status is officially regularized by the competent authorities and all associated development charges have been fully paid and cleared.

NODIA

Oct/Nov 2010

33. What is the primary focus of RBI guidelines regarding the use of bank credit in the housing sector?

(A) To promote speculative investments in real estate to boost market growth

(B) To ensure credit flows to productive construction activities instead of speculation

(C) To limit the provision of housing finance to only designated urban areas

(D) To channel all housing credit exclusively through a single nodal agency like NHB

Ans :

(B) To ensure credit flows to productive construction activities instead of speculation

The Reserve Bank of India's regulatory guidance on housing finance emphasizes the productive use of bank credit. The core objective is to ensure that funds are channeled towards genuine production and construction activities, which contribute to the housing stock, rather than being used for speculative purposes that can create asset bubbles and increase systemic risk in the financial system.

May/June 2022

34. As per regulatory guidance, bank finance may be granted to individuals for all the following purposes EXCEPT:

(A) Purchasing agricultural land for speculative investment.

(B) Buying/constructing a second house for self-occupation in another town.

(C) Purchasing a house to let it out on a rental basis.

(D) Supplementary finance against a second mortgage charge from another lender.

Ans :

(A) Purchasing agricultural land for speculative investment.

Bank finance for housing is directed towards residential needs. This includes acquiring land for construction, buying or building a primary or second home, repairs, and even renting out

Ans :

(D) Hypothecation of the vehicle being purchased
The most direct and standard form of security for a vehicle loan is the vehicle itself. The bank creates a charge known as hypothecation on the vehicle purchased with the loan funds. This charge is registered with the Regional Transport Office (RTO) and gives the bank the right to repossess the vehicle in case of loan default.

Oct/Nov 2025

63. For an individual borrower, what is the maximum repayment tenure generally offered for a loan on a new four-wheeler?
(A) 7 years
(B) 3 years
(C) 5 years
(D) 10 years

Ans :

(A) 7 years
To make the EMIs affordable, banks offer extended repayment tenures for new car loans. For individual borrowers purchasing a new four-wheeler, the maximum repayment period is generally up to 7 years. This longer tenure helps in reducing the monthly payment burden, making it easier for individuals to afford a new vehicle.

May/June 2007

64. Ms. Priya wants to purchase a second-hand car valued at ₹8,00,000. The bank's policy is to charge a 25% margin on second-hand car loans. What is the maximum loan amount Ms. Priya can avail from the bank for this purchase?
(A) ₹8,00,000
(B) ₹6,00,000
(C) ₹7,20,000
(D) ₹5,60,000

Ans :

(B) ₹6,00,000
The loan amount is calculated by deducting the margin from the vehicle's value. The required margin is 25% of ₹8,00,000, which equals ₹2,00,000. Therefore, the maximum loan amount the bank can finance is the total value minus the margin: ₹8,00,000 - ₹2,00,000 = ₹6,00,000. The bank will finance up to 75% of the car's value.

Oct/Nov 2020

65. What is the normal policy of public sector banks regarding prepayment penalties on auto loans?
(A) They typically charge a fixed penalty of 2% on the outstanding principal amount
(B) They normally do not charge any prepayment penalty for early closure of the loan
(C) They charge a penalty only if the loan is prepaid within the first year of disbursement
(D) The penalty is variable and depends on the original loan amount and remaining tenure

Ans :

(B) They normally do not charge any prepayment penalty for early closure of the loan
As a customer-friendly measure, public sector banks generally do not levy any penalty for the prepayment of auto loans. This allows borrowers the flexibility to close their loan account ahead of schedule if they have surplus funds, without incurring any additional financial charges. This policy differs from some private sector banks that may collect prepayment charges.

May/June 2018

66. What is the fundamental characteristic of most personal loans offered by banks?
(A) They are basically unsecured in nature and are backed by the borrower's personal guarantee
(B) They are typically long-term loans with a standard repayment tenure of over 10 years
(C) They are primarily secured against a first mortgage charge on residential or commercial property
(D) They are offered exclusively for funding pre-approved business-related activities and capital expansion

Ans :

(A) They are basically unsecured in nature and are backed by the borrower's personal guarantee
The defining feature of a standard personal loan is that it is typically unsecured. This means it is not backed by any specific collateral like property or gold. Instead, the loan is granted based on the borrower's credit history, income stability, and personal undertaking or guarantee to repay, making it a higher-risk product for the lender.

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May/June 2012

48. What is the maximum loan tenure considered for the purpose of interest subsidy calculation across all categories of the PMAY-CLSS?
(A) 10 years
(B) 20 years
(C) 15 years
(D) 30 years

Ans :

(B) 20 years
While the actual loan tenure from the Primary Lending Institution can be longer, the interest subsidy benefit under PMAY-CLSS is calculated for a specified maximum period. Across all categories—EWS, LIG, MIG-I, and MIG-II—the interest subsidy is computed over a maximum loan tenure of 20 years, even if the borrower's loan extends beyond this duration.

Oct/Nov 2010

49. Under the PMAY-CLSS, what is the maximum loan amount on which the interest subsidy is applicable for a beneficiary in the MIG-I category?
(A) ₹6 lakh
(B) ₹9 lakh
(C) ₹12 lakh
(D) ₹18 lakh

Ans :

(B) ₹9 lakh
The interest subsidy is not applied to the entire loan amount but to a specified portion. For beneficiaries falling under the MIG-I category (income ₹6-12 lakh), the 4% interest subsidy is calculated on a maximum loan amount of ₹9 lakh, even if the total loan availed by the beneficiary is higher than this amount.

May/June 2019

50. What is the maximum permissible carpet area for a dwelling unit to be eligible for subsidy under the Low Income Group (LIG) category of PMAY-CLSS?
(A) 60 sq. m
(B) 30 sq. m
(C) 120 sq. m
(D) 150 sq. m

Ans :

(A) 60 sq. m
To ensure that the benefits of the scheme are directed towards appropriately sized homes for different income segments, maximum carpet area limits are defined. For beneficiaries in the Low Income Group (LIG), the house or flat must have a carpet area of up to 60 square meters to be eligible for the interest subsidy under CLSS.

Oct/Nov 2005

51. Match the PMAY-CLSS category (List-I) with its corresponding maximum carpet area (List-II).
List-I (Category)
P. EWS
Q. MIG-I
R. MIG-II
List-II (Max Carpet Area)
1. 120 sq. m
2. 150 sq. m
3. 30 sq. m
(A) P-1, Q-2, R-3
(B) P-3, Q-1, R-2
(C) P-2, Q-3, R-1
(D) P-3, Q-2, R-1

Ans :

(B) P-3, Q-1, R-2
The maximum permissible carpet area under PMAY-CLSS is defined for each category. For the Economically Weaker Section (EWS), it is 30 sq. m. For the Middle Income Group-I (MIG-I), it is 120 sq. m. For the Middle Income Group-II (MIG-II), the limit is 150 sq. m. Therefore, the correct matching is P-3, Q-1, and R-2.

May/June 2025

52. How is the calculated interest subsidy amount under CLSS transferred to the borrower?
(A) It is paid out in equal annual installments directly into the borrower's designated savings account
(B) It is adjusted on a pro-rata basis against the monthly EMI payments for the entire loan tenure
(C) It is provided as a consolidated tax rebate certificate at the end of each financial year of the loan
(D) It is credited upfront in a lump sum to the borrower's loan account by the PLI

Ans :

(D) It is credited upfront in a lump sum to the borrower's loan account by the PLI
The benefit of the CLSS is provided to the borrower at the beginning of the loan. Upon receiving the subsidy from the Central Nodal

NODIA

term needs. The maximum repayment period for secured personal loans is generally capped at 60 EMIs, which is equivalent to a five-year tenure.

May/June 2024

72. What is the primary basis for the assessment of an educational loan, distinguishing it from other retail loans?
(A) The student's future employability and potential earning capacity after course completion
(B) The current monthly income and overall net worth of the student's parents or legal guardian
(C) The student's past academic performance, including grades from secondary school and college entrance exams
(D) The current market value of the collateral security, such as property or FDs, being provided for the loan

Ans :

(A) The student's future employability and potential earning capacity after course completion
The assessment philosophy for educational loans is unique. Instead of focusing on the parents' current financial status, the primary consideration is the student's future prospects. The loan is assessed based on the perceived employability of the student and their potential to earn after completing the course, as the repayment is expected to come from these future earnings.

Oct/Nov 2022

73. The model educational loan scheme, which is widely followed by public sector banks, was framed by which organization?
(A) Reserve Bank of India (RBI)
(B) Ministry of Human Resource Development
(C) Indian Banks' Association (IBA)
(D) University Grants Commission (UGC)

Ans :

(C) Indian Banks' Association (IBA)
To create a simple, hassle-free, and standardized framework for educational loans across the country, a model scheme was developed. This model scheme, which serves as a guideline for banks, particularly public sector banks, was formulated by the Indian Banks' Association (IBA). This ensures uniformity in the key features and terms of educational loans offered to students.

May/June 2009

74. What is a fundamental eligibility criterion for a student applying for an educational loan under the model scheme?
(A) The student must be an Indian National.
(B) The student must be a minor.
(C) The student's parents must be government employees.
(D) The student must have secured admission in a foreign university only.

Ans :

(A) The student must be an Indian National.
The model educational loan scheme is designed to support Indian students. Therefore, the most fundamental eligibility requirement for any applicant is that they must be an Indian National. This is a prerequisite before other criteria, such as securing admission to a course in India or abroad, are considered by the lending institution.

Oct/Nov 2011

75. Under the model educational loan scheme, what is the maximum quantum of finance for studies within India?
(A) ₹7.5 Lakh
(B) ₹15 Lakh
(C) ₹20 Lakh
(D) ₹10 Lakh

Ans :

(D) ₹10 Lakh
The model scheme specifies different maximum loan amounts for studies in India versus studies abroad. For students pursuing higher education courses within India, the maximum quantum of need-based finance that can be sanctioned under the standard scheme is up to ₹10 Lakh. Banks may consider higher amounts on a case-by-case basis.

May/June 2020

76. An applicant is seeking an educational loan of ₹6 Lakh for studies in India. What is the minimum margin they are required to contribute?
(A) Nil
(B) 5%
(C) 10%
(D) 15%

(merchant), the Acquiring bank (merchant's bank), the Clearing Network (like Visa or MasterCard), and the Issuing bank (cardholder's bank). The Reserve Bank of India is a regulator and not a direct participant in the individual transaction settlement process.

Oct/Nov 2022

10. The fundamental concept behind a credit card is best described as:
(A) Buy Now, Pay Later
(B) Pay Now, Buy Now
(C) Save Now, Buy Later
(D) Pay Now, Use Later

Ans :

(A) Buy Now, Pay Later
The core principle of a credit card is "Buy Now, Pay Later." It allows consumers to purchase goods and services or withdraw cash on credit, deferring the payment to a future date. The cardholder then repays the amount to the issuing bank after an agreed period, either in full or in installments.

May/June 2019

11. What were the earliest forms of proprietary cards, issued by oil companies and consumer stores in the early 1900s, known as?
(A) Loyalty cards
(B) Charge cards
(C) Entertainment cards
(D) Courtesy cards

Ans :

(D) Courtesy cards
In the early 1900s, certain oil companies and consumer stores issued proprietary cards to create customer loyalty and improve service. These early, paper-based cards were known as 'courtesy' cards. They functioned like charge cards, as they did not have a revolving credit feature and required the bill to be paid in full.

Oct/Nov 2006

12. Who issued the first bank card, named 'Charg-It', in 1946?
(A) Frank McNamara
(B) John Biggins
(C) Ralph Schneider
(D) Bank of America

Ans :

(B) John Biggins
The first bank card, called 'Charg-It', was issued in 1946 by a banker named John Biggins. This card allowed customers to make purchases from local merchants in the Brooklyn neighborhood. The bank would reimburse the merchants and then collect the payment from the customers, who were also account holders of the same bank.

May/June 2015

13. The Diner's Club card, the first 'travel and entertainment' card, was technically what type of card?
(A) A revolving credit card
(B) A debit card
(C) A charge card
(D) A prepaid card

Ans :

(C) A charge card
The Diner's Club card, introduced in 1950, allowed members to make purchases on credit. However, it was technically a charge card, not a revolving credit card. This meant that the cardholder was required to pay the entire bill in full at the end of each month, without the option to carry forward a balance.

Oct/Nov 2010

14. Which two entities, established in 1966, evolved into the modern-day payment networks MasterCard and Visa, respectively?
(A) Diners Club and American Express
(B) Franklin National Bank and Biggins Bank
(C) National Payments Corporation of India and Discover
(D) Inter Bank Card Association and BankAmerica Service Corporation

Ans :

(D) Inter Bank Card Association and BankAmerica Service Corporation
In 1966, a group of banks formed the 'Inter Bank Card Association' (ICA), which later became MasterCard. In the same year, Bank of America established the 'BankAmerica Service Corporation' to franchise its BankAmerica brand, which eventually evolved into Visa. These associations created the open-loop system that dominates the market today.

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(A) Tangible collateral security, such as a mortgage on property, is a mandatory requirement for sanction
(B) No security is required, but the student's parents must join the agreement as co-borrowers
(C) A third-party guarantee from a person of means who is acceptable to the bank is mandatory
(D) A legal assignment of the student's future income in favor of the bank is required upon employment

Ans :

(B) No security is required, but the student's parents must join the agreement as co-borrowers
To ensure access to education finance for all, the security norms for smaller educational loans are relaxed. For loans up to ₹4 Lakh, banks are not supposed to ask for any collateral or third-party security. The only requirement is that the student's parent(s) or guardian must join the loan agreement as a co-borrower.

May/June 2011

82. Assertion (A): For an educational loan of ₹9 Lakh, tangible collateral security is required.
Reason (R): Any loan amount above ₹7.5 Lakh requires the parent(s) to be joint borrower(s) and tangible collateral security acceptable to the bank.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

Ans :

(A) Both A and R are true and R is the correct explanation of A.
The assertion that a ₹9 Lakh loan requires tangible collateral is true. The reason correctly states the guideline that for all educational loans exceeding ₹7.5 Lakh, the bank requires not only the parent(s) as joint borrowers but also tangible collateral security to secure the higher loan amount. Thus, the reason provides the correct justification for the assertion.

Oct/Nov 2007

83. What is the standard composition of the 'Repayment Holiday / Moratorium' period for an educational loan?
(A) Course period only
(B) Course period + 6 months
(C) Course period + 1 year
(D) Course period + 2 years

Ans :

(C) Course period + 1 year
The educational loan scheme provides a significant grace period before the borrower needs to start making repayments. This period, known as the repayment holiday or moratorium, is designed to give the student time to find employment after graduation. It is typically defined as the full duration of the course plus an additional one year.

NODIA

May/June 2014

84. Ravi completes his 4-year engineering course in June 2024, for which he had taken an educational loan. As per the standard moratorium period, when will his EMI repayments be scheduled to begin?
(A) July 2024
(B) January 2025
(C) July 2026
(D) July 2025

Ans :

(D) July 2025
The repayment holiday for an educational loan is the course period plus one year. Since Ravi's course period of 4 years ends in June 2024, the one-year moratorium will extend until June 2025. Therefore, his Equated Monthly Instalment (EMI) payments would be scheduled to commence from the following month, which is July 2025.

Oct/Nov 2018

85. What is the maximum repayment period, spanned by EMIs or step-up-instalments, for educational loans across all categories?
(A) 7 years
(B) 10 years
(C) 15 years
(D) 20 years

Ans :

(C) 15 years

Oct/Nov 2016

95. Match the characteristic (List-I) with the appropriate retail loan processing model (List-II).
List-I (Characteristic)
P. Better understanding of customer requirements
Q. Standardised approach
R. Uniform and fixed Turn Around Time (TAT)
List-II (Model)
1. Centralized Model
2. Standalone Model
(A) P-2, Q-1, R-1
(B) P-1, Q-2, R-2
(C) P-2, Q-1, R-2
(D) P-1, Q-1, R-2

Ans :

(A) P-2, Q-1, R-1
The Standalone (branch-level) model allows for a better, personal understanding of customer requirements (P-2). The Centralized model, with its factory-like approach, ensures a standardised process (Q-1) and a uniform, fixed Turn Around Time (TAT) for loan processing (R-1), as all activities are handled exclusively and systematically at one location.

May/June 2008

96. What is a key advantage of the Centralized Model for retail loan processing regarding the time taken?
(A) The processing time is highly flexible and can be adjusted based on the individual customer's priority
(B) The processing time is uniform with a fixed, predetermined Turn Around Time (TAT)
(C) The processing time is generally longer due to the multiple layers of verification and approval checks
(D) The processing time depends entirely on the local branch manager's current workload and staffing levels

Ans :

(B) The processing time is uniform with a fixed, predetermined Turn Around Time (TAT)
A major benefit of the Centralized Model is efficiency and predictability. Because the Retail Loan Processing Centre (RLPC) is a specialized unit focused exclusively on this activity, it can implement standardized workflows. This results in a uniform processing time and a fixed Turn Around Time (TAT) for different loan products, enhancing service quality and customer satisfaction.

Oct/Nov 2013

97. What is considered a primary advantage of the Standalone (Branch Level) Model of loan processing?
(A) The use of professional and highly standardized documentation templates for all loan cases
(B) A better and more personal understanding of the customer's specific requirements
(C) A uniform quality of credit appraisal that is consistent across all of the bank's branches nationwide
(D) A generally faster and more professional approach due to less bureaucracy and fewer hand-offs

Ans :

(B) A better and more personal understanding of the customer's specific requirements
While the centralized model offers standardization and efficiency, the standalone model's strength lies in its proximity to the customer. Branch personnel often have a direct, personal relationship with the applicants. This allows for a better and more nuanced understanding of the customer's specific needs and circumstances, as opposed to a purely document-based assessment.

May/June 2021

98. A large bank with numerous branches across several cities wants to ensure that its home loan appraisal quality is consistent and that all applications are processed within a guaranteed 7-day period. Which processing model should the bank adopt and why?
(A) The Centralized Model, as it ensures a uniform appraisal approach and a fixed TAT
(B) The Standalone Model, as local branches have a better understanding of their customers
(C) A hybrid model, with initial processing at the branch and final sanction at the head office
(D) The Standalone Model, as it is generally more flexible and less bureaucratic for customers

Ans :

(A) The Centralized Model, as it ensures a uniform appraisal approach and a fixed TAT
The bank's objectives are uniform appraisal quality and a fixed Turn Around Time (TAT).

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Sector Interest Subsidy (CSIS) scheme for educational loans?
(A) ₹4.5 lakh
(B) ₹2.5 lakh
(C) ₹6.0 lakh
(D) ₹8.0 lakh

Ans :

(A) ₹4.5 lakh
The Central Sector Interest Subsidy (CSIS) scheme is targeted at students from Economically Weaker Sections (EWS). To be eligible for this scheme, which provides a full interest subsidy during the moratorium period, the student's annual gross parental or family income from all sources must not exceed the upper limit of ₹4.5 lakh.

Oct/Nov 2023

91. Banks adopt two main models for the processing of retail loans to ensure speed and efficiency. What are these two models?
(A) Online Model and Offline Model
(B) Direct Model and Agency Model
(C) Urban Model and Rural Model
(D) Standalone Model and Centralized Model

Ans :

(D) Standalone Model and Centralized Model
To manage the high volume of retail loan applications effectively, banks have structured their processing mechanisms into two primary models. The first is the Standalone Model, where processing occurs at the individual branch level. The second is the Centralized Model, where applications are processed at a dedicated hub, often called a Retail Loan Processing Centre (RLPC).

May/June 2005

92. In the Standalone Model of retail loan processing, where does the entire process from application to sanction typically take place?
(A) At the bank's head office
(B) Independently at the branch level
(C) At a specialized Retail Loan Factory
(D) At the Regional/Zonal Office

Ans :

(B) Independently at the branch level
The Standalone Model is a decentralized approach to loan processing. In this model, the local branch is responsible for the entire workflow. This includes marketing the loan, processing the application, appraising the proposal, and sanctioning the loan, provided it falls within the discretionary powers of the Branch Head. All related formalities are completed at the branch.

Oct/Nov 2006

93. Banks use various names for their centralized retail loan processing units. Which of the following is NOT a common name for such a centre?
(A) Retail Loan Factory
(B) Retail Asset Processing Centre
(C) Retail Loan Adjudication Unit
(D) Retail Loan Hub

Ans :

(C) Retail Loan Adjudication Unit
Banks have adopted several descriptive names for their centralized processing hubs, such as Retail Loan Factory, Retail Loan Hub, Retail Loan Processing Centre, Retail Asset Processing Centre, and even specialized Retail Loan Branches. The term "Retail Loan Adjudication Unit" is not mentioned as one of the common names used for these centres.

May/June 2017

94. Based on the provided source, which activity is performed by the Retail Loan Processing Centre (RLPC) immediately after conducting verification checks?
Source: "On receipt of application and details from the branches, RLPCs do the following steps: i. Process the application. ii. Do the verification checks. iii. Arrive at the Credit Score. iv. Do the valuation... v. Obtain the Encumbrance Certificate... vi. Obtain the legal opinion..."
(A) Obtaining the legal opinion
(B) Processing the application
(C) Doing the valuation
(D) Arriving at the Credit Score

Ans :

(D) Arriving at the Credit Score
The source provides a sequential list of steps undertaken by a Retail Loan Processing Centre (RLPC). According to this workflow, the first step is processing the application (i), followed by conducting verification checks (ii). The step that immediately follows the verification checks is arriving at the applicant's Credit Score (iii), which is a critical input for credit appraisal.

To keep the repayment burden manageable for the student at the start of their career, educational loans are structured with a long repayment tenure. For all categories of educational loans, the repayment can be spanned over a maximum period of 15 years after the moratorium period ends. This allows for smaller initial EMIs.

May/June 2012

86. What is the bank's policy regarding levying a penalty for the prepayment of an educational loan?

(A) A penalty is levied if the loan is prepaid within 3 years.
(B) No prepayment penalty will be levied.
(C) A 1% penalty is charged on the outstanding amount.
(D) The penalty is at the discretion of individual banks.

Ans :

(B) No prepayment penalty will be levied.
The model educational loan scheme includes a borrower-friendly feature regarding early repayment. It explicitly states that no prepayment penalty will be levied if the borrower wishes to repay the loan, either in part or in full, at any time during the repayment period. This encourages early closure of the loan without any additional financial burden.

Oct/Nov 2010

87. What is the quantum of interest concession that may be provided by a bank if the interest on an educational loan is serviced during the study and moratorium period?

(A) 0.5%
(B) 1.5%
(C) 2%
(D) 1%

Ans :

(D) 1%
To incentivize the servicing of interest even during the moratorium period, banks offer a concession. If the borrower or their parents choose to pay the simple interest as it accrues during the study period and the subsequent moratorium period, the bank may provide an interest concession of 1% on the loan's interest rate.

May/June 2019

88. A student who is 17 years old applies for an educational loan with his father as the joint borrower. The bank sanctions the loan. What special documentation must the bank obtain from the student later?

(A) The bank must obtain a letter of ratification from the student upon attaining majority
(B) The student must submit a completely new loan application with fresh documentation upon turning 18
(C) An affidavit must be obtained from a first-class magistrate's court confirming the student's current age
(D) A new set of collateral security documents must be executed by the student as the primary borrower

Ans :

(A) The bank must obtain a letter of ratification from the student upon attaining majority
A contract with a minor is not legally enforceable. When a loan is sanctioned to a student who is a minor, the loan documents are executed by the parent. To make the student liable for the debt once they become a major, the bank must obtain a letter of ratification from the student upon their attaining the age of 18.

Oct/Nov 2005

89. Which online portal, managed by Protean eGov Technologies Ltd., serves as a gateway for students to apply for educational loans from various banks?

(A) PMJDY Portal
(B) National Scholarship Portal
(C) Vidya Lakshmi Portal
(D) UGC Net Portal

Ans :

(C) Vidya Lakshmi Portal
To create a single window for students to access information and apply for educational loans, the government launched the Vidya Lakshmi Portal. This portal, managed by Protean eGov Technologies Ltd. (formerly NSDL e-Governance Infrastructure Ltd.), is linked with scheduled banks and allows students to apply to multiple banks and track their applications online.

May/June 2025

90. What is the maximum annual parental family income for a student to be eligible for the Central

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These are the hallmark advantages of the Centralized Model. By processing all loans at a dedicated Retail Loan Processing Centre (RLPC), the bank can enforce standardized appraisal norms and workflows, ensuring consistency and meeting the guaranteed 7-day processing timeline.

Oct/Nov 2021

99. Consider the following statements regarding documentation standards in loan processing models:
Statement 1: In the Standalone Model, documentation standards may not be uniform across branches.
Statement 2: In the Centralized Model, professional documentation standards are followed.
(A) Both Statement 1 and Statement 2 are correct.
(B) Both Statement 1 and Statement 2 are incorrect.
(C) Only Statement 1 is correct.
(D) Only Statement 2 is correct.

Ans :

(A) Both Statement 1 and Statement 2 are correct.
The comparison between the two models highlights a key difference in documentation. In the Standalone Model, varying practices across branches can lead to non-uniform documentation. Conversely, the Centralized Model, with its specialized and professional approach, ensures that professional and consistent documentation standards are maintained for all loan files, reducing gaps and deficiencies.

May/June 2023

100. Assertion (A): The introduction of Retail Loan Processing Centres (RLPCs) has helped banks improve appraisal quality and reduce documentation gaps.
Reason (R): RLPCs follow an exclusive, professional, and standardised approach to loan processing.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

Ans :

(A) Both A and R are true and R is the correct explanation of A.
The assertion (A) correctly states the positive impact of RLPCs on appraisal quality and documentation. The reason (R) provides the precise cause for this improvement: RLPCs are specialized units that handle loan processing as an exclusive activity, allowing them to adopt a more professional, uniform, and standardized approach. This directly leads to the benefits mentioned in the assertion.

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Ans :

(B) 5%
The margin requirement for educational loans is tiered. While there is no margin for loans up to ₹4 Lakh, a contribution from the borrower is required for higher amounts. For loans above ₹4 Lakh for studies within India, the applicant is required to bring in a minimum margin of 5% of the total expenses.

Oct/Nov 2015

77. What is the margin requirement for an educational loan of ₹10 Lakh for a student pursuing studies abroad?
(A) Nil
(B) 5%
(C) 15%
(D) 10%

Ans :

(C) 15%
The margin requirement for educational loans for studies abroad is higher than for studies in India, reflecting the higher costs and perceived risks. For any loan amount above ₹4 Lakh intended for studies abroad, the student or their family is required to contribute a minimum margin of 15% towards the educational expenses.

May/June 2022

78. A student is eligible for a total educational expense of ₹8 Lakh. They have received a scholarship of ₹1 Lakh. The loan is for studies in India, requiring a 5% margin. How is the margin calculated?
(A) The 5% margin will be calculated on the total expense of ₹8 Lakh.
(B) The 5% margin will be calculated on the net expense of ₹7 Lakh.
(C) No margin is required from the student because a scholarship has been received.
(D) The ₹1 Lakh scholarship amount will be considered as the margin contribution.

Ans :

(D) The ₹1 Lakh scholarship amount will be considered as the margin contribution.
The educational loan guidelines state that any scholarship or assistantship received by the student will be included in the margin calculation. The required margin is 5% of ₹8 Lakh, which is ₹40,000. Since the scholarship of ₹1 Lakh is greater than the required margin, it will be considered as the margin, and no further contribution is needed.

Oct/Nov 2009

79. Up to what loan amount is an educational loan eligible for coverage under the Credit Guarantee Fund Scheme for Education Loans (CGFSEL)?
(A) ₹7.5 Lakh
(B) ₹4 Lakh
(C) ₹10 Lakh
(D) ₹20 Lakh

Ans :

(A) ₹7.5 Lakh
To encourage banks to lend for education without insisting on collateral or third-party guarantees for smaller loan amounts, the government has established a credit guarantee scheme. Educational loans sanctioned up to a maximum amount of ₹7.5 Lakh are eligible to be covered under this Credit Guarantee Fund Scheme, which protects the bank against default.

May/June 2006

80. In an educational loan, what is the maximum permissible amount for expenses like 'Caution deposit, Building fund/refundable deposit' relative to the total tuition fees?
(A) The amount should not exceed a cap of 5% of the total tuition fees.
(B) The amount should not exceed a cap of 10% of the total tuition fees.
(C) The amount should not exceed a cap of 20% of the total tuition fees.
(D) There is no specified upper limit for including such expenses in the loan.

Ans :

(B) The amount should not exceed a cap of 10% of the total tuition fees.
While financing various educational expenses, banks have specific sub-limits for certain components to ensure reasonableness. For expenses such as caution deposits, building funds, or other refundable deposits charged by the institution, the amount included in the loan should not be more than 10% of the total tuition fees for the entire course.

Oct/Nov 2017

81. What is the security requirement for an educational loan of ₹3.5 Lakh?

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maintains high standards of service and conduct, safeguarding its reputation.

May/June 2021

5. How is the credit limit on a credit card typically structured?
(A) As a fixed-term loan with a specific maturity date
(B) As a one-time sanction linked to a savings account
(C) As a revolving line of credit
(D) As a daily withdrawal limit only for cash

Ans :

(C) As a revolving line of credit
The credit limit sanctioned to a credit cardholder is in the form of a revolving line of credit, which is conceptually similar to a loan sanctioned by the issuer. This allows the cardholder to use funds up to a certain limit and repay them over time, with the available credit replenishing as the outstanding balance is paid off.

Oct/Nov 2011

6. Which of the following is a key characteristic of prepaid cards?
(A) They are always linked to a bank account of the cardholder
(B) They are issued against value paid in advance by the cardholder
(C) They represent a revolving line of credit sanctioned by the issuer
(D) They can only be issued by banks and not by non-bank entities

Ans :

(B) They are issued against value paid in advance by the cardholder
Prepaid cards are fundamentally different from credit or debit cards as they are issued against value that the cardholder pays in advance. This pre-loaded value is then stored on the card, which can be in various forms like smart cards, magnetic stripe cards, internet wallets, or mobile accounts, and used for transactions.

May/June 2012

7. What are the standard dimensions of a typical credit card?
(A) 4 1/4 inches by 3 1/4 inches
(B) 3 1/2 inches by 2 1/2 inches
(C) 4 1/8 inches by 2 1/8 inches
(D) 3 1/8 inches by 2 1/8 inches

Ans :

(D) 3 1/8 inches by 2 1/8 inches
A credit card is a thin plastic card, typically manufactured to a standard size for universal compatibility with ATMs and Point of Sale (PoS) terminals. The standard dimension is 3 1/8 inches by 2 1/8 inches. This uniformity ensures that the card can be used across a wide range of devices and establishments worldwide.

Oct/Nov 2016

8. Based on the operational process of credit card usage, what is the primary difference between a proprietary card and a co-branded card?
(A) Proprietary cards are standalone bank cards, while co-branded cards are issued in a tie-up with service providers
(B) Proprietary cards are issued by Visa, while co-branded cards are issued by MasterCard
(C) Proprietary cards have no reward points, whereas co-branded cards offer extensive reward points
(D) Proprietary cards can only be used for online transactions, while co-branded cards are for offline use

Ans :

(A) Proprietary cards are standalone bank cards, while co-branded cards are issued in a tie-up with service providers
Proprietary cards, such as Classic, Silver, or Gold, are issued as standalone products by banks. In contrast, co-branded cards are issued under a partnership between a bank and a service provider, like an airline or hotel. These cards typically offer additional reward points or benefits for using the partner's services, encouraging specific spending patterns.

May/June 2005

9. In a typical credit card transaction cycle, which of the following is NOT one of the five parties involved?
(A) The Retailer
(B) The Issuing bank
(C) The Reserve Bank of India
(D) The Clearing Network

Ans :

(C) The Reserve Bank of India
A credit card transaction cycle involves five key parties: the Customer (cardholder), the Retailer

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CHAPTER 10
Credit and Debit Cards

May/June 2014

1. Which function of money is NOT typically performed by a deposit account, as described in the context of 'money-like' instruments?
(A) Store of value
(B) Medium of exchange
(C) Standard of value
(D) Measurement of value

Ans :

(B) Medium of exchange
A deposit account primarily serves as a 'store of value'. While cheques drawn on it act as a medium of exchange, the account itself does not directly fulfill this function. Money, in contrast, performs all functions, including being a medium of exchange, a standard of value, and a measure of price.

Oct/Nov 2025

2. The acceptability of credit cards as a popular means of payment is primarily enabled by which of the following?
(A) A large network of banks and financial institutions supported by payment services like Visa and MasterCard
(B) The backing by national governments and the sovereign guarantee they provide for all transactions
(C) The advanced physical security features of the plastic card, including holograms and microprinting
(D) The universal 'Buy Now, Pay Later' agreement that is legally binding for all registered merchants

Ans :

(A) A large network of banks and financial institutions supported by payment services like Visa and MasterCard
Unlike money, which is backed by governments, credit cards derive their acceptability from the credibility of a vast network of banks and financial institutions. This network is further supported by payment service providers such as Visa, MasterCard, and RuPay, which ensures wide acceptance and trust in the system for completing transactions globally.

May/June 2007

3. According to RBI guidelines, what is the minimum net worth required for a bank to undertake credit card business in India?
(A) ₹50 Crore
(B) ₹200 Crore
(C) ₹100 Crore
(D) ₹500 Crore

Ans :

(C) ₹100 Crore
As per the regulations, only banks with a net worth of ₹100 Crore and above are permitted to undertake credit card business. While prior RBI approval is not necessary for a bank to start this business independently or in a tie-up, setting up a separate subsidiary for this purpose does require prior approval from the RBI.

Oct/Nov 2018

4. When a bank partners with a non-bank entity for credit card operations, what is a key requirement to mitigate reputation risk?
(A) The non-bank entity must have a net worth of over ₹100 Crore
(B) The non-bank entity must be listed on a recognized stock exchange
(C) All cardholders must also be account holders of the bank
(D) The bank must have a well-documented policy and a Fair Practices Code

Ans :

(D) The bank must have a well-documented policy and a Fair Practices Code
To protect against reputation risk arising from partnerships with non-bank entities, it is mandatory for the bank to have a well-documented policy and a Fair Practices Code for credit card operations. This ensures that the bank conducts due diligence on the partner and

NODIA

May/June 2023

15. Which of the following best describes a 'closed loop' payment system?

(A) A system where a single firm captures, processes, and settles all transactions directly with cardholders and merchants

(B) A system where transaction data is openly shared with thousands of member banks for settlement

(C) A system that requires complex interbank co-operation and multiple fund transfers for every single transaction

(D) A system exclusively used by public sector banks for processing government-related transactions and subsidies

Ans :

(A) A system where a single firm captures, processes, and settles all transactions directly with cardholders and merchants

In a closed loop system, a single entity manages the entire transaction lifecycle. This firm contracts directly with both cardholders and merchants, handling authorization, processing, and settlement without involving other banks. Diners Club and American Express are prominent examples of companies that operate on a closed loop model, maintaining control over the entire network.

Oct/Nov 2020

16. In an 'open loop' system like Visa or MasterCard, what are the four primary parties involved in a transaction?

(A) Customer, Merchant, Government, and Sponsoring Network

(B) Merchant, Acquiring Bank, Issuing Bank, and the Consumer

(C) Cardholder, Retailer, Sponsoring Bank, and Clearing House

(D) Issuing Bank, Acquiring Bank, Merchant, and Processor

Ans :

(B) Merchant, Acquiring Bank, Issuing Bank, and the Consumer

An open loop system is characterized as a four-party transaction model. It includes the consumer (cardholder), the merchant (retailer), the acquiring bank (merchant's bank), and the issuing bank (cardholder's bank). The payment network (like Visa or MasterCard) facilitates the communication and settlement of funds between the acquiring and issuing banks.

May/June 2009

17. Which of the following is a primary role of sponsors like Visa, MasterCard, and RuPay in the payment ecosystem?

(A) Directly issuing all types of credit cards to the final consumers across the country

(B) Facilitating transactions and providing the infrastructure for interchange

(C) Setting the specific interest rates and annual fees for all member banks in the network

(D) Directly approving or denying credit limits for every individual cardholder application

Ans :

(B) Facilitating transactions and providing the infrastructure for interchange

Sponsors such as Visa, MasterCard, and RuPay do not issue cards directly to consumers (with American Express being an exception). Their main role is to facilitate transactions among users, merchants, and member financial institutions. They provide the global communications network for interchange, which is the electronic transfer of information and funds, and set operational standards.

Oct/Nov 2012

18. Which bank introduced the first credit card in India, known as 'Central Card', in 1980?

(A) Central Bank of India

(B) State Bank of India

(C) Bank of Baroda

(D) ICICI Bank

Ans :

(A) Central Bank of India

The history of credit cards in the Indian market began in 1980. The Central Bank of India was the pioneer, introducing a credit card named 'Central Card'. This marked the initial entry of domestic banks into the credit card business, which would later see significant growth and participation from various public and private sector banks.

May/June 2025

19. As of March 31, 2022, what was the approximate number of outstanding credit cards and debit cards in India, respectively?

(A) 917.66 million credit cards and 73.62 million debit cards

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(B) 75 million credit cards and 73.62 million debit cards
(C) 73.62 million credit cards and 917.66 million debit cards
(D) 73.62 million credit cards and 75 million debit cards

Ans :

(C) 73.62 million credit cards and 917.66 million debit cards
According to the data, as of March 31, 2022, the Indian payment landscape showed a massive prevalence of debit cards. There were approximately 917.66 million outstanding debit cards, a phenomenal rise from 75 million in 2007. In contrast, the number of outstanding credit cards stood at a significantly lower figure of 73.62 million.

Oct/Nov 2005

20. Which two types of banks dominated the issuance of debit cards and credit cards in India, respectively, as of March 2022?
(A) Debit cards by new private sector banks; Credit cards by public sector banks
(B) Both debit and credit cards were dominated by public sector banks
(C) Both debit and credit cards were dominated by new private sector banks
(D) Debit cards by public sector banks; Credit cards by new private sector banks

Ans :

(D) Debit cards by public sector banks; Credit cards by new private sector banks
As of March 2022, there was a clear distinction in market dominance. Almost three-fourths of the 917.66 million debit cards were issued by public sector banks. Conversely, more than half of the outstanding credit cards were issued by the new private sector banks, highlighting their aggressive strategy and focus in the credit card segment.

May/June 2017

21. What is the primary role of the National Payments Corporation of India (NPCI)?
(A) To directly issue credit and debit cards to all Indian citizens as a government service
(B) To strictly regulate the net worth requirements for foreign banks entering the card business
(C) To act as an umbrella organisation for operating retail payments and settlement systems in India
(D) To set the final Annualised Percentage Rate (APR) for all credit cards issued in India

Ans :

(C) To act as an umbrella organisation for operating retail payments and settlement systems in India
The National Payments Corporation of India (NPCI) was established as an initiative of the RBI and the Indian Banks' Association (IBA). Its primary function is to serve as an umbrella organisation for all retail payment and settlement systems in India, aiming to create a robust and efficient payment infrastructure for the country.

Oct/Nov 2019

22. RuPay, launched by NPCI, is designed as what type of system?
(A) A domestic, closed-loop, bilateral system
(B) A domestic, open-loop, multilateral system
(C) An international, closed-loop, multilateral system
(D) An international, open-loop, bilateral system

Ans :

(B) A domestic, open-loop, multilateral system
RuPay was conceived to fulfill the RBI's vision of having a domestic payment system. It is designed as an open-loop, multilateral system, which allows all Indian banks and financial institutions to participate in electronic payments. This structure promotes interoperability and reduces dependence on international card schemes for domestic transactions.

May/June 2008

23. Which of the following is NOT a variant of the RuPay Credit card?
(A) RuPay Select
(B) RuPay Platinum
(C) RuPay Classic
(D) RuPay Titanium

Ans :

(D) RuPay Titanium
NPCI offers several variants of its RuPay cards to cater to different customer segments. The variants specifically mentioned for RuPay Credit cards are 'RuPay Select', 'RuPay Platinum', and 'RuPay Classic'. 'Titanium' is a branding tier commonly associated with MasterCard and is not listed as a RuPay credit card variant in the text.

NODIA

Oct/Nov 2007

24. Based on the "Statistics of Credit Card business as on 31-03-2022" table, which of the following banks had the highest number of outstanding credit cards?
(A) HDFC Bank Ltd
(B) State Bank of India
(C) ICICI Bank Ltd
(D) Axis Bank Ltd

Ans :

(A) HDFC Bank Ltd
According to the provided table of statistics as of March 31, 2022, HDFC Bank Ltd had the highest number of outstanding credit cards with 16,536,735. This was followed by State Bank of India (13,766,861) and ICICI Bank Ltd (12,978,825), making HDFC Bank the market leader in terms of card base at that time.

May/June 2013

25. According to the "Statistics of Credit Card business as on 31-03-2022" table, which bank had more outstanding credit cards between Canara Bank and Union Bank of India?
(A) Union Bank of India had more cards
(B) Both had an equal number of cards
(C) Canara Bank had more cards
(D) The data for these banks is not provided

Ans :

(C) Canara Bank had more cards
As per the data presented in the table for March 31, 2022, Canara Bank had 927,694 outstanding credit cards. In comparison, Union Bank of India had 538,325 outstanding credit cards. Therefore, Canara Bank had a larger credit card base than Union Bank of India on the specified date.

Oct/Nov 2014

26. Which bank pioneered the concept of a franchisee and co-branded model in the Indian credit card space to achieve critical mass?
(A) Canara Bank
(B) ICICI Bank
(C) State Bank of India
(D) Standard Chartered Bank

Ans :

(A) Canara Bank
Canara Bank played a pioneering role by introducing the franchisee and co-branded model. It improved its volumes by tying up with other Public Sector Banks like Union Bank of India and Indian Overseas Bank. This strategy helped it achieve a critical mass in credit card issuance, showcasing an innovative approach to market expansion.

May/June 2006

27. Which group of banks is stated to dominate the Indian credit card market with more than 90% market share?
(A) Canara Bank, Union Bank of India, and Bank of Baroda
(B) American Express, HSBC, and DBS Bank
(C) All Public Sector Banks combined
(D) Citibank, Standard Chartered Bank, State Bank of India, ICICI Bank, and HDFC Bank

Ans :

(D) Citibank, Standard Chartered Bank, State Bank of India, ICICI Bank, and HDFC Bank
Despite the entry of many players, the Indian credit card market is highly concentrated. A few major banks, including foreign banks like Citibank and Standard Chartered, and large domestic players like State Bank of India, ICICI Bank, and HDFC Bank, collectively dominate the market, holding a combined market share of over 90%.

Oct/Nov 2024

28. What is the primary characteristic of a proprietary credit card issued by a bank?
(A) It is exclusively issued in partnership with a service provider like an airline or hotel chain
(B) It is a stand-alone card issued under the bank's own brand names like Classic, Silver, or Gold
(C) It is designed exclusively for high-net-worth corporate customers and business expenses
(D) It does not require any association with a major payment network like Visa or MasterCard

Ans :

(B) It is a stand-alone card issued under the bank's own brand names like Classic, Silver, or Gold
Banks issue credit cards in two main formats: proprietary and co-branded. A proprietary card is a stand-alone product marketed under the bank's own brand hierarchy, such as Classic, Silver, Gold, Platinum, and Titanium. The credit limits

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Closed System PPIs are issued by an entity for use exclusively within its own ecosystem. They are meant for purchasing goods and services from that specific issuer. Since they cannot be used for payments to third parties and do not allow cash withdrawal, their issuance does not require RBI authorization as a payment system.

May/June 2011

59. Which type of Prepaid Payment Instrument (PPI) is issued only by banks and can be used at any merchant, along with permitting cash withdrawal at ATMs?
(A) Closed System PPI
(B) Semi-closed System PPI
(C) Bank-exclusive PPI
(D) Open System PPI

Ans :

(D) Open System PPI
Open System PPIs offer the widest acceptability. They are issued exclusively by banks and can be used for purchasing goods and services at any merchant. A key feature is that they also facilitate cash withdrawal at ATMs, Point of Sale (PoS) terminals, and through Business Correspondents (BCs), making them similar to debit cards.

Oct/Nov 2013

60. What is the maximum outstanding amount permitted in an Open System PPI at any point in time?
(A) ₹10,000
(B) ₹1,00,000
(C) ₹50,000
(D) ₹2,00,000

Ans :

(B) ₹1,00,000
For Open System PPIs, which are issued by banks and allow for cash withdrawal, there is a regulatory ceiling on the amount that can be held. The outstanding amount in such a PPI is not allowed to exceed ₹1,00,000 at any point in time, which helps in managing the associated risks.

May/June 2020

61. What is the monthly fund transfer limit per beneficiary for pre-registered beneficiaries in an Open System PPI?
(A) ₹10,000
(B) ₹50,000
(C) ₹1,00,000
(D) No limit for pre-registered beneficiaries

Ans :

(C) ₹1,00,000
Open System PPIs allow for fund transfers. For beneficiaries who are pre-registered by the PPI holder (by providing bank account details or PPI details), the fund transfer limit is set at a maximum of ₹1,00,000 per month per beneficiary. For all other cases, the limit is a much lower ₹10,000 per month.

Oct/Nov 2015

62. What is the maximum amount of cash that can be loaded into a PPI per month?
(A) ₹10,000
(B) ₹25,000
(C) ₹1,00,000
(D) ₹50,000

Ans :

(D) ₹50,000
While PPIs can be loaded through various electronic means, there is a specific limit for loading them with cash. The regulations state that cash loading to PPIs is limited to ₹50,000 per month, which is subject to the overall limit of the PPI instrument itself. This is a measure to control and monitor cash transactions.

May/June 2018

63. For cross-border outward transactions using INR-denominated PPIs, what are the per-transaction and per-month limits?
(A) ₹10,000 per transaction and ₹50,000 per month
(B) ₹5,000 per transaction and ₹25,000 per month
(C) ₹15,000 per transaction and ₹75,000 per month
(D) ₹20,000 per transaction and ₹1,00,000 per month

Ans :

(A) ₹10,000 per transaction and ₹50,000 per month
Issuers can enable cross-border outward transactions on KYC-compliant reloadable PPIs upon explicit request. For such transactions, a per-transaction limit not exceeding ₹10,000 and a per-month limit not exceeding ₹50,000 are applicable. These transactions are only for

NODIA

Oct/Nov 2023

34. What is the primary type of transaction for which BharatQR is specifically designed?
(A) Peer-to-Merchant (P2M) transfers using cards (Debit/Credit/Prepaid)
(B) Peer-to-Peer (P2P) transfers using VPA
(C) Cash withdrawal at merchant locations
(D) Only government subsidy transfers

Ans :

(A) Peer-to-Merchant (P2M) transfers using cards (Debit/Credit/Prepaid)
While both BharatQR and BHIM QR can be scanned by the same app, they serve different primary purposes. BharatQR is specifically used for Peer-to-Merchant (P2M) transactions where payment is made using a linked Debit, Credit, or Prepaid card. In contrast, BHIM QR is UPI-based and used for P2P or P2M transactions via a VPA.

May/June 2011

35. Which of the following is described as a key feature of the BharatQR code payment system?
(A) High-cost infrastructure
(B) Pull-based transaction
(C) Interoperable QR code
(D) Proprietary and non-sharable system

Ans :

(C) Interoperable QR code
A major feature of BharatQR is its interoperability. It provides a common interface that works across RuPay, Mastercard, Visa, and American Express networks. Other features include low-cost infrastructure, remote management of merchants and customers, and a push-based transaction mechanism, where the user initiates the payment to the merchant.

Oct/Nov 2015

36. What is the typical range for the interest-free credit period offered on credit cards by banks in India?
(A) 10 to 20 days
(B) 50 to 70 days
(C) Always a fixed 30 days
(D) 20 to 50 days

Ans :

(D) 20 to 50 days
Credit cards offer a free credit period, which is the time between the billing date and the payment due date. This period usually ranges from 20 to 50 days and varies from one bank to another. This benefit allows cardholders to use the bank's funds for a short period without incurring any interest charges.

May/June 2024

37. How are reward points on a credit card typically calculated?
(A) As a fixed number of points per transaction, regardless of amount
(B) A percentage of the total monthly outstanding balance
(C) Based on a fixed number of points per ₹100 spent
(D) Only on cash withdrawal transactions

Ans :

(C) Based on a fixed number of points per ₹100 spent
To encourage card usage, issuing banks offer reward points. These points are generally awarded based on the transaction amount. The common mechanism is to award a fixed number of points for every ₹100 spent, with the total points for a purchase calculated on this basis. These accumulated points can be redeemed later.

Oct/Nov 2008

38. What is the third payment option available to a credit cardholder, besides paying in full or paying the minimum amount due?
(A) Paying exactly 50% of the total outstanding amount every month
(B) Converting the outstanding amount into a loan to be repaid in EMIs
(C) Deferring the entire payment to the next billing cycle without any charges or interest
(D) Paying only the interest that has accrued for the current billing month

Ans :

(B) Converting the outstanding amount into a loan to be repaid in EMIs
A credit cardholder has three primary payment options. They can pay the total amount due, pay a minimum amount (typically 10%), or they can choose to convert the entire outstanding balance into a loan. This loan is then repaid through Equated Monthly Installments (EMIs) over a chosen tenure, attracting a specific interest rate.

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The calculation for Minimum Amount Due (MAD) is the highest of: a) 5% of the statement outstanding; b) the sum of all billed installments, interest, fees, over-limit amount, and 1% of the principal; or c) ₹250 in case of default. A percentage of the total credit limit is not a standard component of the MAD calculation.

May/June 2015

49. A cardholder spends ₹10,000 and decides to pay only the Minimum Amount Due (MAD) each month. What is the approximate time it would take to pay back the complete amount, as per the example provided?

(A) 2.5 years
(B) 6.5 years
(C) 4.5 years
(D) 8.5 years

Ans :

(B) 6.5 years
The text provides a specific example to illustrate the pitfall of paying only the Minimum Amount Due. It states that if a person spends ₹10,000 and consistently pays only the MAD each month, the prolonged repayment period, due to the exorbitant interest on the remaining balance, would extend to approximately 6.5 years.

Oct/Nov 2018

50. The interest-free period on a credit card is applicable under which specific condition?

(A) It applies only if there are no outstanding dues from the previous billing cycle
(B) It applies to all types of transactions, including cash advances and fuel purchases
(C) It is only applicable if the cardholder consistently pays the Minimum Amount Due
(D) It is only available for the first six months after the card is initially issued

Ans :

(A) It applies only if there are no outstanding dues from the previous billing cycle
The interest-free period is a conditional benefit. It is only applicable to retail purchases and, most importantly, only if the cardholder has paid the entire balance of the previous month in full. If there is any carry-over balance (revolving balance), the interest-free period is forfeited, and new purchases also start attracting interest immediately.

May/June 2006

51. What is the purpose of stating an Annualised Percentage Rate (APR) on credit card statements?

(A) To accurately calculate the total reward points earned by the cardholder in a year
(B) To determine the cardholder's eligibility for an automatic credit limit enhancement
(C) To comply with a regulatory prescription for clearly mentioning the annualised interest rate
(D) To show the exact foreign currency markup fee on international transactions

Ans :

(C) To comply with a regulatory prescription for clearly mentioning the annualised interest rate
Previously, interest rates were often shown as a monthly percentage, which could understate the high cost of credit. Due to regulatory prescription, credit card issuers are now required to clearly state the Annualised Percentage Rate (APR). This is done by annualizing the monthly rate to provide a more transparent view of the interest cost.

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Oct/Nov 2009

52. Based on the "Other Charges & Penalties" table, what is the charge for a Cash Advance Transaction?

(A) 1.5% of the cash amount (Min. ₹150)
(B) 3.5% of the cash amount (Min. ₹500)
(C) A flat fee of ₹250 per transaction
(D) 2.5% of the cash amount (Min. ₹300)

Ans :

(D) 2.5% of the cash amount (Min. ₹300)
The provided table details various charges levied by issuing banks. For a Cash Advance Transaction, the charge is specified as 2.5% of the amount withdrawn, subject to a minimum fee of ₹300. This fee is levied in addition to the finance charges that start accruing from the date of the transaction itself.

May/June 2024

53. According to the "Other Charges & Penalties" table, what is the Overdue Penalty/Late Payment Fee?

(A) 10% of Total Amount Due (Max. ₹500)
(B) A flat fee of ₹600
(C) 15% of Total Amount Due (Min. ₹350, Max. ₹750)
(D) 2.5% of Total Amount Due (Min. ₹300)

considered eligible for a credit card, along with other conditions like KYC compliance.

Oct/Nov 2005

44. Regarding add-on credit cards, which statement is correct concerning liability?

(A) The add-on cardholder is solely and independently liable for their own transactions
(B) The liability for transactions on the add-on card rests with the principal cardholder
(C) The liability is shared equally on a 50/50 basis between the principal and add-on cardholders
(D) The issuing bank bears the complete liability for all transactions made on add-on cards

Ans :

(B) The liability for transactions on the add-on card rests with the principal cardholder
Add-on cards are issued as subsidiary cards to a primary credit card account. It is clearly understood and specified at the time of issuance that the full liability for all charges incurred on the add-on card, as well as the primary card, belongs to the principal cardholder, not the add-on user.

May/June 2005

45. Under what circumstance are finance charges applied to a credit card account?

(A) When the cardholder makes any fresh purchase within the new billing cycle
(B) When the cardholder pays the total outstanding amount in full before the due date
(C) When the cardholder pays only a part of the total payment or the Minimum Amount Due
(D) When the cardholder uses the card exclusively for online utility bill payments

Ans :

(C) When the cardholder pays only a part of the total payment or the Minimum Amount Due
Finance charges, or interest, are levied only when the cardholder does not pay the entire outstanding balance by the due date. If only a partial payment or the Minimum Amount Due is paid, the remaining balance is carried forward and attracts finance charges on the entire outstanding amount, including new purchases.

Oct/Nov 2011

46. Finance charges on cash advances taken on a credit card are applicable from which date?

(A) From the statement generation date
(B) From the payment due date
(C) From 30 days after the cash advance transaction
(D) From the date the cash advance transaction was incurred

Ans :

(D) From the date the cash advance transaction was incurred
Unlike retail purchases, cash advances on a credit card do not have an interest-free period. Finance charges start accruing from the very day the cash withdrawal transaction is made and continue to be levied until the amount is fully paid back, making it a very expensive form of credit.

May/June 2017

47. A credit card has an outstanding balance of ₹20,000, and the monthly interest rate is 3.5%. The balance is not paid on the due date. What would be the approximate daily interest charge on this balance?

(A) ₹23.01
(B) ₹700.00
(C) ₹19.18
(D) ₹25.50

Ans :

(A) ₹23.01
The daily interest is calculated by first annualizing the monthly rate and then dividing by 365. The calculation is: Daily Interest = (Outstanding Balance × (Monthly Interest Rate × 12)) / 365. So, (₹20,000 × (3.5% × 12)) / 365 = (₹20,000 × 42%) / 365 = ₹8400 / 365 = ₹23.01.

Oct/Nov 2010

48. The Minimum Amount Due (MAD) on a credit card is calculated as the higher of three specific conditions. Which of the following is NOT one of those conditions?

(A) 5% of the statement outstanding
(B) 10% of the total credit limit
(C) Sum of all installments, interest, fees, over-limit amount, and 1% of the principal
(D) ₹250 in case of default

Ans :

(B) 10% of the total credit limit

NODIA

and facilities on these cards vary depending on the card's tier and the customer's profile.

May/June 2016

29. What is a key advantage of a co-branded credit card for the customer?
(A) Significantly lower annual fees compared to all types of proprietary cards
(B) No defined credit limit is applicable, allowing for unlimited spending on these cards
(C) Special incentives and reward points for using the tied-up company's services
(D) They are universally accepted in all countries, unlike proprietary cards which are domestic only

Ans :

(C) Special incentives and reward points for using the tied-up company's services
In a co-branded format, banks partner with service providers like hotels, airlines, or oil companies. The main attraction for customers is the offer of special incentives, discounts, or additional reward points when they use the card for transactions with the partner company. This enhances brand recall and encourages specific product usage.

Oct/Nov 2013

30. According to the table comparing RuPay Credit Card variants, what is the insurance amount for loss of life or permanent disability on the SELECT (Super Premium) card?
(A) ₹2 Lakh
(B) ₹5 Lakh
(C) No insurance is provided
(D) ₹10 Lakh

Ans :

(D) ₹10 Lakh
The feature comparison table for RuPay Credit Cards clearly states the benefits for each variant. For the SELECT (Super Premium) card, the insurance coverage provided for loss of life or permanent disability is ₹10 Lakh. This is a significant feature distinguishing it from the PLATINUM (Premium) variant, which offers ₹2 Lakh for the same.

May/June 2022

31. As per the feature comparison of RuPay Credit Cards, which benefit is exclusively available on the SELECT (Super Premium) card but not on the PLATINUM (Premium) card?
(A) Lounge program access
(B) Fuel Surcharge Waiver
(C) Utility Bill - Cash Back Offer
(D) IRCTC - Cash Back Offer

Ans :

(A) Lounge program access
The comparison table indicates that the RuPay SELECT (Super Premium) card offers four free lounge accesses per year in over 300 cities worldwide. The corresponding cell for the RuPay PLATINUM (Premium) card explicitly states "NO," making this a key differentiating feature available only on the higher-tier SELECT variant.

Oct/Nov 2009

32. What does the name "RuPay" symbolically represent?
(A) Rural Payment network
(B) Rupee and Payment
(C) Rupiya Path
(D) Regulated Universal Payment

Ans :

(B) Rupee and Payment
The name "RuPay" is a portmanteau of two words: "Rupee" and "Payment". This name was chosen to emphasize that it is India's own domestic initiative for card payments, expressing national pride and signifying its role in the country's journey towards a "cash-less" economy, as envisioned by the Reserve Bank of India.

May/June 2018

33. BharatQR was developed by NPCI in collaboration with which other major payment networks?
(A) American Express and Discover
(B) Mastercard and Visa
(C) Diners Club and PULSE
(D) Only NPCI developed it independently

Ans :

(B) Mastercard and Visa
BharatQR is an integrated, interoperable QR code-based payment system. It was not developed by NPCI alone but was a collaborative effort with international payment giants Mastercard and Visa. This collaboration was key to its design as a common interface, making it distinct from individual proprietary QR code systems.

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Ans :

(C) 15% of Total Amount Due (Min. ₹350, Max. ₹750)
The table clearly lists the penalty for late payment. It is calculated as 15% of the Total Amount Due. This charge is also subject to a minimum of ₹350 and a maximum of ₹750, ensuring a significant penalty for default while also capping the maximum possible fee for a single instance of late payment.

Oct/Nov 2023

54. What is the typical range for the foreign currency mark-up fee on international credit card transactions?
(A) 0.5% to 1%
(B) 2% to 4%
(C) 1% to 2%
(D) 5% to 7%

Ans :

(B) 2% to 4%
When a credit card is used for transactions in a foreign currency, a foreign currency mark-up fee is levied. This fee, which covers the cost of currency conversion and other associated risks, typically varies from 2% to 4% of the transaction amount. This charge is disclosed in the card's terms and conditions.

May/June 2012

55. A credit card has a billing date of October 30, and the payment due date is November 21. If a purchase is made on October 1, what is the interest-free period the user enjoys for this transaction?
(A) 22 days
(B) 30 days
(C) 45 days
(D) 51 days

Ans :

(D) 51 days
The interest-free period is calculated from the date of purchase to the payment due date. The purchase on October 1 is billed on October 30. The period from October 1 to November 21 (30 days in October + 21 days in November) gives a total of 51 interest-free days, assuming the previous balance was cleared.

Oct/Nov 2012

56. What is the defining characteristic of a charge card?
(A) The cardholder must settle the bill in full at the end of the payment cycle
(B) It is not linked to any of the customer's savings or current bank accounts
(C) It allows the cardholder to revolve the balance by paying a minimum amount due
(D) It can only be used for a specific category of expenses like travel and entertainment

Ans :

(A) The cardholder must settle the bill in full at the end of the payment cycle
A charge card, unlike a credit card, does not offer a revolving credit facility. Its primary rule is that the cardholder is required to pay the entire outstanding bill in full by the due date at the end of every payment cycle. It allows for deferred payment but not for carrying a balance forward.

May/June 2008

57. Which of the following is NOT a variant of the RuPay Prepaid card offered by NPCI?
(A) Gift card
(B) Payroll card
(C) Corporate card
(D) Student card

Ans :

(C) Corporate card
NPCI offers several variants of RuPay Prepaid cards to cater to specific needs. The text mentions Gift cards, Payroll cards, Student cards, and Virtual cards as examples. Corporate cards are typically a category of credit cards, not prepaid cards, and are issued to employees of corporate customers for business expenses.

NODIA

Oct/Nov 2021

58. Which type of Prepaid Payment Instrument (PPI) is issued by an entity for the purchase of goods and services from that entity only and does not permit cash withdrawal?
(A) Closed System PPI
(B) Open System PPI
(C) Semi-closed System PPI
(D) Multilateral System PPI

Ans :

(A) Closed System PPI

May/June 2010

39. In the event of a lost credit card, what is the usual liability limit for the cardholder as mentioned in the text?
(A) The entire credit limit of the card
(B) 50% of the fraudulent transaction amount
(C) No liability if reported within 48 hours
(D) A restricted amount, usually ₹1000

Ans :

(D) A restricted amount, usually ₹1000
Most credit card issuers limit the cardholder's liability in case the card is lost or stolen. The liability is typically restricted to a small amount, stated to be usually ₹1000 (Rupees One Thousand Only). The remaining liability for fraudulent transactions is often covered by an insurance protection policy held by the card issuer.

Oct/Nov 2021

40. What is the purpose of security features like 'Verified by Visa' and 'MasterCard SecureCode' for credit card transactions?
(A) To offer additional password protection for online purchases
(B) To provide free personal accident insurance
(C) To enable contactless payments
(D) To track reward points and cash back offers

Ans :

(A) To offer additional password protection for online purchases
'Verified by Visa' and 'MasterCard SecureCode' are security protocols mandated by the RBI to enhance the safety of online transactions. They provide an additional layer of security, similar to an ATM PIN, by requiring the cardholder to enter a unique password to authenticate and complete an online purchase, thus preventing unauthorized use.

May/June 2020

41. Which of the following represents the correct chronological order of the credit card issuing process?
(A) Application Processing → Obtaining Application → Credit Score Analysis → Card & PIN Issue
(B) Obtaining Application → Credit Score Analysis → Application Processing → Card & PIN Issue
(C) Obtaining Application → Application Processing → Credit Score Analysis → Card & PIN Issue
(D) Credit Score Analysis → Obtaining Application → Application Processing → Card & PIN Issue

Ans :

(C) Obtaining Application → Application Processing → Credit Score Analysis → Card & PIN Issue
The credit card issuance process follows a logical sequence. It begins with obtaining an application from the prospect, followed by processing that application. Next, the bank analyses the applicant's information to arrive at a credit score, which informs the decision on the card type. Finally, the card and PIN mailer are issued.

Oct/Nov 2017

42. Which of the following documents is generally required as Income Proof for a credit card application?
(A) Latest IT Return or Salary Slip
(B) Passport or UID
(C) Electricity Bill or Telephone Bill
(D) PAN Card copy

Ans :

(A) Latest IT Return or Salary Slip
While documents like Passport, UID, and utility bills serve as identity and address proof, proof of income is crucial for assessing repayment capacity. For this purpose, banks typically require documents like the latest Income Tax (IT) Return, Form 16 for salaried individuals, or a recent Salary Slip, especially for government or PSU employees.

May/June 2021

43. What is the minimum age eligibility criterion for obtaining a credit card in India?
(A) 16 years of age
(B) 21 years of age
(C) 25 years of age
(D) 18 years of age

Ans :

(D) 18 years of age
The basic eligibility criteria for a credit card applicant include several factors. One of the fundamental requirements is that the applicant must be an adult. The text specifies that the individual must be at least 18 years of age to be

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permissible current account transactions under FEMA, like purchasing goods and services.

Oct/Nov 2016

64. The enhanced security of a smart card compared to a magnetic stripe card is primarily due to its:
(A) Its significantly larger physical size, making it harder to duplicate
(B) Its embedded microprocessor chip which can securely process and store data
(C) Its exclusive use of Near Field Communication (NFC) for all transactions
(D) Its use of a completely non-rewriteable memory to prevent data alteration

Ans :

(B) Its embedded microprocessor chip which can securely process and store data
A smart card's security is significantly superior because it contains an embedded microprocessor chip. This chip acts like a minicomputer, capable of on-card processing and securely storing information. It is tamper-proof and uses data encryption standards (DES), making it much safer for financial transactions than the older magnetic stripe technology.

May/June 2016

65. The fundamental concept behind a debit card is best described as:
(A) Buy Now, Pay Later
(B) Buy Now, Pay Now
(C) Borrow Now, Pay Later
(D) Pay Now, Use Later

Ans :

(B) Buy Now, Pay Now
In direct contrast to a credit card, a debit card operates on the principle of "Buy Now, Pay Now." When a purchase is made using a debit card, the payment is made instantly and directly from the cardholder's linked bank account balance. There is no extension of credit involved in the transaction.

Oct/Nov 2017

66. According to RBI Guidelines, to which type of account holders can banks issue debit cards?
(A) Savings Bank and Current Account holders
(B) Only Savings Bank Account holders
(C) Only Current Account holders
(D) Cash credit and loan account holders

Ans :

(A) Savings Bank and Current Account holders
RBI guidelines specify the eligibility for debit card issuance. Banks are permitted to issue debit cards to customers who hold a Savings Bank Account or a Current Account. The guidelines explicitly prohibit the issuance of debit cards to cash credit or loan account holders, as debit cards are meant to access existing funds.

May/June 2007

67. Which of the following is a key obligation of the cardholder as per the terms and conditions for debit card issuance?
(A) To share the PIN with a trusted family member for emergency situations
(B) To record the PIN in a secure digital file or password manager for easy access
(C) To notify the bank immediately after becoming aware of the card's loss or theft
(D) To use the card for at least one transaction every month to keep the account active

Ans :

(C) To notify the bank immediately after becoming aware of the card's loss or theft
The terms and conditions place a clear obligation on the cardholder for the security of the card. This includes the responsibility to notify the bank immediately upon realizing the card has been lost, stolen, or copied. Prompt notification is crucial to prevent unauthorized transactions and limit the cardholder's liability.

Oct/Nov 2008

68. What type of debit cards are banks permitted to issue, according to RBI guidelines?
(A) Offline debit cards only, which settle transactions at the end of the day
(B) Both online and offline debit cards, depending on the customer's choice
(C) Debit cards that allow for a short-term credit period of up to 7 days
(D) Online debit cards where there is immediate debit to the account

Ans :

(D) Online debit cards where there is immediate debit to the account
The guidelines from the RBI are specific about the nature of debit cards that can be issued. Banks are only permitted to issue online debit cards.

CHAPTER 11
Remittance Products

Oct/Nov 2018

1. According to the evolution of remittance in retail banking, which of the following represents the earliest form of remittance mechanism?
(A) Instantaneous electronic transfers initiated through mobile banking platforms
(B) Physical movement of paper instruments like Cheques and Demand Drafts
(C) Card-based payments processed via debit and credit card networks
(D) Automated transfers settled via the National Electronic Funds Transfer (NEFT) system

Ans :

(B) Physical movement of paper instruments like Cheques and Demand Drafts
The evolution of remittance products began with the physical movement of instruments. Products such as Cheques, Demand Drafts, Bank Orders, and Telegraphic Transfers were the earliest forms that constituted the core remittance mechanism across banks before the advent of technology and electronic payment systems, which introduced newer, speedier, and more innovative remittance products in banking.

May/June 2021

2. What was the approximate share of paper-based instruments like cheques and drafts in the volume and value of total non-cash transactions in India as per the introductory discussion?
(A) 60% in volume and 11% in value
(B) 60% in volume and 30% in value
(C) 50% in volume and 20% in value
(D) 11% in volume and 60% in value

Ans :

(A) 60% in volume and 11% in value
Paper-based instruments, such as cheques and drafts, accounted for nearly 60% of the total volume of non-cash transactions in the country. However, in terms of value, their share was significantly lower, standing at around 11%. This disparity highlights that while paper instruments were numerous, they were typically used for lower-value transactions compared to electronic modes.

Oct/Nov 2006

3. Which traditional remittance product is defined as a negotiable instrument drawn by one bank branch upon another, instructing the payment of a certain sum of money?
(A) Bank Cheque
(B) Telegraphic Transfer
(C) Demand Draft
(D) Bank Order

Ans :

(C) Demand Draft
A Demand Draft is a negotiable instrument where one branch of a bank issues an order to another branch to pay a specific amount to a certain person. It is treated as a cheque for protection under the Negotiable Instruments Act, 1881. A bank cannot make its demand draft payable to bearer, as this violates Section 31 of the RBI Act, 1934.

May/June 2014

4. Under the electronic payment systems framework, which of the following are categorised as Centralised Payment Systems (CPC)?
(A) RTGS, NEFT, and Cheque Truncation System
(B) ECS, MICR centres, and Cheque Truncation System
(C) NEFT, ECS, and National Automated Clearing House (NACH)
(D) RTGS, NEFT, and National Electronic Clearing Service (NECS)

Ans :

(D) RTGS, NEFT, and National Electronic Clearing Service (NECS)
The Reserve Bank of India established two sets of access criteria for banks. The Centralised Payment Systems (CPC) are available to eligible licensed banks and include the Real Time Gross Settlement (RTGS) system, National Electronic Funds Transfer (NEFT), and National Electronic

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balance. (R) Interest is charged on unpaid credit card balances. (S) Credit cards carry a high default risk for the issuer. The correct matching is P-3, Q-1, R-2, S-4.

May/June 2010

73. What is the primary purpose of a co-branded card?
(A) To offer a premium card with a higher credit limit than any other type of card
(B) To provide a basic, no-frills card designed for new-to-credit customers
(C) To combine two or more facilities in a card with added benefits from a partner entity
(D) To create a card that works on both Visa and MasterCard networks simultaneously

Ans :

(C) To combine two or more facilities in a card with added benefits from a partner entity
Co-branding is a process where a bank partners with another corporate entity, such as an airline, hotel chain, or retail company. The resulting card combines the usual payment facilities with special rewards, discounts, or benefits offered by the co-branding partner, making it an attractive proposition for customers of that partner.

Oct/Nov 2006

74. Which of the following is an example of a co-branded card mentioned in the text?
(A) Citibank - Indian Oil Card
(B) RuPay Select Card
(C) Central Card
(D) Franklin National Bank Card

Ans :

(A) Citibank - Indian Oil Card
The text provides several examples of co-branded cards that have been in circulation in India. These include partnerships like Amex-Jet Airways, ICICI-HPCL, SBI-Maruti, and the Citibank - Indian Oil card. These cards are designed to offer specific benefits, such as fuel surcharge waivers or reward points on fuel purchases, to promote usage.

May/June 2009

75. How does co-branding help a bank's credit card business?
(A) It significantly reduces the interchange fee paid to payment networks like Visa
(B) It eliminates the need for prior RBI approval for issuing new credit cards
(C) It allows the bank to issue offline debit cards to the partner's customers
(D) It helps in adding to the card base as the partner also markets the product

Ans :

(D) It helps in adding to the card base as the partner also markets the product
Co-branding partnerships are mutually beneficial. For the bank, a significant advantage is customer acquisition. The co-branding partner, having a vested interest in the card's success, also undertakes marketing efforts to promote the product to its own customer base. This helps the bank expand its cardholder base more effectively and tap into quality customers.

Oct/Nov 2007

76. What is the maximum transaction value for a contactless payment that can be made without entering a PIN?
(A) ₹1,000
(B) ₹5,000
(C) ₹2,000
(D) ₹10,000

Ans :

(B) ₹5,000
Contactless cards are designed for quick, low-value payments. For transactions at participating stores, a customer can simply wave or tap the card on the terminal without entering a PIN. To limit the risk of fraud, the maximum value for such a PIN-less contactless transaction is capped at ₹5,000.

May/June 2023

77. What technology do contactless cards use to enable 'tap and pay' functionality?
(A) Bluetooth
(B) Infrared (IR)
(C) Near-Field Communication (NFC)
(D) Magnetic Stripe Communication (MSC)

Ans :

(C) Near-Field Communication (NFC)
Contactless cards work using Near-Field Communication (NFC) technology. NFC employs short-range radio transmission to establish contact when the card is tapped or waved near a compatible payment terminal. This technology

This means the system must support immediate debit to the customer's account with straight-through processing. The issuance of offline-debit cards, which would involve a delay in debiting, is not permitted.

May/June 2025

69. A bank is responsible for direct losses incurred by a debit cardholder due to a system malfunction, with one exception. What is that exception?
(A) If the total loss incurred by the cardholder is below ₹1000
(B) If the system malfunction is reported by the cardholder after 24 hours
(C) If the breakdown is recognizable to the cardholder via a message on the device's display
(D) If the transaction was performed at an ATM belonging to another bank

Ans :

(C) If the breakdown is recognizable to the cardholder via a message on the device's display
A bank is held responsible for direct losses to a cardholder from a system malfunction that is within the bank's control. However, there is an exception: if the system breakdown is recognizable to the cardholder, for example, through an error message on the screen of the ATM or PoS device, the bank's liability may be limited.

Oct/Nov 2024

70. Based on the "Debit Cards Vs Credit Cards" comparison table, which statement is incorrect?
(A) A free credit period is allowed for credit cards but not for debit cards.
(B) Default risk is high for both credit cards and debit cards.
(C) Interest is charged for unpaid balances on credit cards.
(D) A credit card becomes a receivable asset for the bank when used.

Ans :

(B) Default risk is high for both credit cards and debit cards.
The comparison table clearly differentiates the risk profiles. It states that for credit cards, the "Default Risk is high" because the bank extends unsecured credit. For debit cards, it states there is "No Default Risk," as transactions are only possible if sufficient funds exist in the linked account, eliminating the risk of non-payment.

May/June 2013

71. According to the "Debit Cards Vs Credit Cards" table, how does the nature of the instrument differ?
(A) A credit card is a liability instrument, while a debit card is an asset instrument.
(B) Both are considered asset instruments for the bank.
(C) Both are operative instruments of a liability account.
(D) A credit card is an asset (receivable), while a debit card is an operative instrument of a liability account (Savings Account).

Ans :

(D) A credit card is an asset (receivable), while a debit card is an operative instrument of a liability account (Savings Account).
The table highlights a fundamental accounting difference. When a credit card is used, it creates a receivable, which is an asset for the bank. In contrast, a debit card is merely an operative instrument that allows a customer to access their own funds held in a liability account (like a Savings Account) of the bank.

Oct/Nov 2019

72. Match List-I with List-II regarding the differences between Credit Cards and Debit Cards.
List-I (Feature)
P. Payment Timing
Q. Limit
R. Interest
S. Risk Profile
List-II (Attribute)
1. No limit prescribed, drawing is from existing balance
2. Charged for unpaid/carried over balances
3. Payment is instantaneous
4. High default risk
(A) P-3, Q-1, R-2, S-4
(B) P-1, Q-3, R-4, S-2
(C) P-3, Q-2, R-1, S-4
(D) P-2, Q-4, R-3, S-1

Ans :

(A) P-3, Q-1, R-2, S-4
Based on the comparison table: (P) Debit card payment is instantaneous. (Q) A debit card has no prescribed limit as it draws from the account

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Oct/Nov 2025

82. What is the Bharat Ecommerce Payment Gateway (BEPG)?

(A) A new e-commerce system by RuPay to enhance the online shopping experience for its cardholders

(B) A physical gateway installed at merchant locations to accept all RuPay cards

(C) A central government portal for filing e-commerce related tax returns and GST

(D) A payment aggregator designed specifically for international e-commerce websites

Ans :

(A) A new e-commerce system by RuPay to enhance the online shopping experience for its cardholders

The Bharat Ecommerce Payment Gateway (BEPG) is a new system developed to improve the e-commerce experience specifically for RuPay cardholders. Its objective is to provide a more convenient and easy-to-use online payment process while maintaining a high level of security and minimizing risks associated with online transactions.

May/June 2015

83. NPCI International Payments Limited (NIPL) signed an MoU with PPRO Financial to expand RuPay acceptance in which two major foreign markets?

(A) UK and Australia

(B) Canada and Japan

(C) China and United States

(D) UAE and Singapore

Ans :

(C) China and United States

To facilitate international transactions for Indian consumers, NIPL signed a Memorandum of Understanding (MoU) with UK-based PPRO Financial. The specific goal of this partnership is to expand the acceptance of RuPay in foreign markets, with a special focus on China and the United States, which together account for half of all international transactions from India.

Oct/Nov 2014

84. The National Common Mobility Card (NCMC) was launched on the RuPay platform with what primary objective?

(A) To provide a single, universal card for all online shopping and e-commerce

(B) To offer higher cashback and rewards on all domestic RuPay transactions

(C) To be used exclusively for the direct disbursal of government subsidy payments

(D) To create an interoperable transport card under the 'One Nation, One Card' scheme

Ans :

(D) To create an interoperable transport card under the 'One Nation, One Card' scheme

The National Common Mobility Card (NCMC) was launched in March 2019 as part of the 'One Nation, One Card' initiative. Built on the RuPay platform, its goal is to provide an interoperable card that can be used across various transport systems (like metros and buses) nationwide, avoiding vendor lock-in and simplifying travel payments.

May/June 2014

85. What is RuPay On-the-Go?

(A) A dedicated mobile banking application for all RuPay cardholders

(B) A specialized travel card pre-loaded with various foreign currencies

(C) An interoperable, open-loop contactless solution available on smartwatches and other accessories

(D) An instant issuance service for a physical RuPay card at bank branches

Ans :

(C) An interoperable, open-loop contactless solution available on smartwatches and other accessories

RuPay On-the-Go, launched at the Global Fintech Festival 2021, is an innovative contactless payment solution. It allows the RuPay card to be embedded in wearable personal accessories like smartwatches. This enables users to make tap-and-pay transactions without needing to carry their physical card, offering greater convenience.

Oct/Nov 2010

86. Which company did NPCI enter into a strategic partnership with in 2012 to enable international acceptance of RuPay Global Cards?

(A) American Express

(B) Discover Financial Services (DFS)

(C) Visa Inc.

(D) Mastercard Worldwide

Ans :

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facilitates the secure and rapid exchange of payment information without the need for physical swiping or dipping the card.

Oct/Nov 2022

78. What is a key security advantage of using a contactless card for payment?

(A) The transaction details are not recorded in the monthly bank statement
(B) It uses a different, more secure encryption standard than CHIP and PIN
(C) It does not require any authentication for transactions above ₹5000
(D) The card does not need to leave the customer's hand during the transaction

Ans :

(D) The card does not need to leave the customer's hand during the transaction

One of the primary security enhancements of a contactless payment is that the card remains in the customer's possession throughout the transaction. Since the card is not handed over to the merchant, it reduces the risk of card skimming or cloning, thereby enhancing the security and confidence of the cardholder.

May/June 2019

79. A customer has a contactless card and needs to make a payment of ₹6,500 at a store. How would this transaction be processed?

(A) The customer can tap or dip the card, but will be required to enter a PIN to complete the transaction
(B) The transaction will be declined as it is above the maximum contactless limit
(C) The customer can tap the card and the payment will go through without entering a PIN
(D) The customer must make two separate contactless transactions of ₹5,000 and ₹1,500

Ans :

(A) The customer can tap or dip the card, but will be required to enter a PIN to complete the transaction

The ₹5,000 limit is for PIN-less contactless transactions. For amounts exceeding this, the card can still be used. The card can be used in the traditional way (swiping or dipping) or by tapping, but the terminal will prompt the user to enter their PIN to authorize the payment, ensuring security for higher-value transactions.

Oct/Nov 2020

80. According to the RBI guideline mentioned, what is the restriction on the number of free ATM transactions for customers at other-bank ATMs?

(A) Increased from three to five transactions per month
(B) Reduced from five to three transactions per month
(C) Fixed at five transactions per month
(D) Reduced from eight to five transactions per month

Ans :

(B) Reduced from five to three transactions per month

To encourage digital payments and manage costs, the RBI has implemented guidelines restricting free ATM usage. The text mentions a recent guideline that reduced the number of free transactions for customers at other-bank ATMs from five to three per month. Exceeding this limit incurs a charge, nudging customers towards digital payment alternatives.

May/June 2022

81. What is the purpose of RuPay's tokenization technology?

(A) To allow customers to earn unique digital tokens as reward points for transactions
(B) To enable consumers to make card payments using their phones without disclosing sensitive card details
(C) To create a physical token that can be used for seamless metro and bus travel
(D) To convert the Indian Rupee into a digital token for international crypto payments

Ans :

(B) To enable consumers to make card payments using their phones without disclosing sensitive card details

Tokenization is a security technology that replaces sensitive card information (like the 16-digit card number) with a unique digital identifier called a 'token'. This allows consumers to securely store their card information on devices like phones or smartwatches and make payments without exposing the actual card details, significantly reducing fraud risk.

NODIA

May/June 2017

91. Assertion (A): Finance charges on a credit card are calculated on a daily basis.
Reason (R): Finance charges are applicable from the date of transaction for cash advances and on the entire outstanding amount if the previous bill was not paid in full.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is true; finance charges are calculated daily. Reason (R) is also true, as it correctly states the conditions under which interest accrues. Reason (R) provides the underlying logic for daily calculation, as interest starts from different points (transaction date for cash, billing cycle for revolving credit), necessitating a daily calculation.

Oct/Nov 2018

92. Mr. Sharma has a credit card with a statement date of the 2nd of every month. His October 2nd statement shows transactions made between September 3rd and October 2nd, with a due date of October 24th. He makes a new purchase on October 3rd. When will this purchase appear on his statement and what is the implication if he fails to pay his October 2nd bill in full?
(A) The purchase will appear on the October 2nd statement, and no interest will be charged on it
(B) The purchase will appear on the November 2nd statement, but if the October bill is not fully paid, interest will be charged on this new purchase from October 3rd
(C) The purchase will appear on the November 2nd statement, and it will get a full interest-free period regardless of the previous payment
(D) The purchase will appear on the December 2nd statement and will be combined with November's purchases

Ans :

(B) The purchase will appear on the November 2nd statement, but if the October bill is not fully paid, interest will be charged on this new purchase from October 3rd
The transaction on October 3rd falls into the next billing cycle, so it will appear on the November 2nd statement. However, the interest-free grace period is conditional on clearing the previous month's dues in full. If the October 2nd bill is not paid completely, the interest-free period is lost, and the new purchase will attract interest immediately.

May/June 2011

93. Which of the following statements regarding the evolution of credit cards is chronologically correct?
(A) The Diner's Club card was the first card issued, predating the 'Charg-It' card by several years
(B) Franklin National Bank issued the first modern credit cards before John Biggins' 'Charg-It' card
(C) The 'Charg-It' card was issued in 1946, followed by the Diner's Club card in 1950
(D) The Inter Bank Card Association (MasterCard) was formed before the invention of the Diner's Club card

Ans :

(C) The 'Charg-It' card was issued in 1946, followed by the Diner's Club card in 1950
The historical timeline shows that the first bank card, 'Charg-It', was issued by John Biggins in 1946. This was followed by the first 'travel and entertainment' card, the Diner's Club card, which was innovated in 1949 and formally launched in 1950. The formal launch by Franklin National Bank was in 1951.

Oct/Nov 2012

94. Identify the incorrect statement regarding RuPay.
(A) It is a domestic payment system designed with an open-loop, multilateral structure
(B) It was launched by NPCI, which is an initiative of the RBI and the Indian Banks' Association (IBA)
(C) The brand name "RuPay" is a portmanteau derived from the words "Rupee" and "Payment"
(D) It is the brand name for India's international payment network, competing with SWIFT

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(B) Discover Financial Services (DFS)
To take RuPay to the global stage, NPCI formed a strategic partnership with Discover Financial Services (DFS) on March 7, 2012. This alliance enabled RuPay Global Cards to be accepted on the Discover, Diners Club International, and PULSE networks for international purchases and cash access outside of India.

May/June 2005

87. The RuPay Business Platinum card, launched in collaboration with the Central Bank of India, is specifically designed for which customer segment?
(A) Affluent salaried individuals with high monthly income and spending
(B) Students and young professionals who are new to the credit system
(C) Central and state government employees for their official expenses
(D) Corporate customers, including small businesses and micro-enterprises

Ans :

(D) Corporate customers, including small businesses and micro-enterprises
The RuPay Business Platinum card was launched on December 29, 2021, in partnership with the Central Bank of India. It is tailored for corporate customers, with a focus on helping people from small businesses and micro-enterprises. The card is designed to help them maintain their personal and business accounts and expenses separately.

Oct/Nov 2005

88. What is a distinguishing feature of the RuPay Select card, launched in 2020?
(A) It offers benefits curated under one package, independent of issuing bank partnerships
(B) It is a basic, entry-level card with minimum features and no annual fee
(C) It is designed exclusively for use in rural and semi-urban areas of India
(D) It can only be issued by Public Sector Banks and not by private banks

Ans :

(A) It offers benefits curated by NPCI itself under a single package, independent of issuing bank partnerships
The RuPay Select card was introduced for the affluent segment. Its unique proposition is that the benefits are curated by NPCI itself under a single package. This is different from other cards where benefits often depend on partnerships formed by the individual issuing bank. This approach aims to provide a consistent premium experience.

May/June 2021

89. Consider the following statements about credit cards:
1. They are plastic money with pre-set limits based on the customer's credit score.
2. The operational process ends with the payment of credit card dues.
3. Banks issue different types of cards with targeted volumes and business objectives.

Which of the above statements is/are correct?
(A) 1 only
(B) 1 and 2 only
(C) 1, 2, and 3
(D) 2 and 3 only

Ans :

(C) 1, 2, and 3
All three statements accurately summarize the key aspects of credit cards. They are a form of plastic money with credit limits determined by a customer's creditworthiness. The cycle of usage concludes when the cardholder settles the dues. Banks strategically issue various card types to meet specific business goals and target different customer segments.

Oct/Nov 2011

90. What is the maximum value that can be stored in any prepaid payment card issued by banks and authorized non-bank entities at any point in time, as per extant instructions?
(A) ₹1,00,000
(B) ₹50,000
(C) ₹1,50,000
(D) ₹2,00,000

Ans :

(A) ₹1,00,000
The summary of instructions for prepaid instruments reiterates a key regulatory limit. For any prepaid payment card, whether issued by a bank or an authorized non-bank entity, the maximum value that can be stored or held in the card at any given point in time is capped at ₹1,00,000.

NODIA

Ans :

(A) The bank is not liable as the breakdown was recognizable to the cardholder via the message
Banks are responsible for losses from system malfunctions within their control. However, the rules specify an exception: if the breakdown is recognizable to the cardholder, such as through a message on the device's display, the bank's liability is limited. In this case, the "System Error" message makes the breakdown known, falling under the exception.

May/June 2007

99. Which of the following is a correct pair of a card type and its core concept?
(A) Credit Card - "Buy Now, Pay Now"
(B) Debit Card - "Buy Now, Pay Later"
(C) Charge card - "Pay in full at end of cycle"
(D) Prepaid Card - "Revolving line of credit"

Ans :

(C) Charge card - "Pay in full at end of cycle"
The core concepts are distinct. A Credit Card is "Buy Now, Pay Later". A Debit Card is "Buy Now, Pay Now". A Prepaid Card is "Pay in advance, use later". A Charge Card's defining feature is the requirement to settle the bill in full at the end of the payment cycle.

Oct/Nov 2017

100. Identify the correct statement about the parties involved in a payment transaction.
(A) A cash transaction involves five parties: customer, retailer, acquiring bank, issuing bank, and clearing network
(B) A credit card transaction involves only two parties: the customer who pays and the retailer who receives
(C) Both cash and credit card transactions involve the exact same number of participating parties
(D) A cash transaction involves two parties, while a credit card transaction cycle involves five parties

Ans :

(D) A cash transaction involves two parties, while a credit card transaction cycle involves five parties
There is a fundamental difference in the transaction process. A simple cash transaction is a direct exchange between two parties: the customer and the retailer. A credit card transaction is more complex, involving a 'complete cycle' of five parties: the customer, retailer, acquiring bank, clearing network, and the issuing bank, which facilitates the credit and settlement.

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Ans :

(D) It is the brand name for India's international payment network, competing with SWIFT

While RuPay has global partnerships, it was conceived primarily as a domestic payment network to serve the Indian market. SWIFT is a messaging network for international financial transactions between banks and is fundamentally different from a card payment scheme like RuPay. The other statements about its design, origin, and name are correct.

May/June 2006

95. A bank is considering launching a credit card business. Its current net worth is ₹95 Crore. It plans to enter into a tie-up arrangement with another bank that already issues credit cards. According to RBI guidelines, what must the bank do?

(A) It must first increase its net worth to at least ₹100 Crore.
(B) It can proceed with the tie-up without any regulatory hurdles.
(C) It must set up a subsidiary and seek prior RBI approval.
(D) It only needs to inform the RBI post-facto about the tie-up.

Ans :

(A) It must first increase its net worth to at least ₹100 Crore.

The RBI has a clear stipulation for entry into the credit card business. Only banks with a net worth of ₹100 Crore and above are permitted to undertake this business, whether independently or through a tie-up. Since the bank's net worth is below this threshold, it is not eligible and must first meet the minimum requirement.

Oct/Nov 2015

96. Which of the following is NOT a feature of a smart card?

(A) It contains a microprocessor or memory chip.
(B) It has a data storage capacity of only 300 bytes of non-rewriteable memory.
(C) It has the ability to perform on-card processing functions like add, delete, and manipulate information.
(D) It is based on the Data Encryption Standard (DES) approved by ISO.

Ans :

(B) It has a data storage capacity of only 300 bytes of non-rewriteable memory.

The description of having only 300 bytes of non-rewriteable memory and no processing capability is a characteristic of the older magnetic stripe card technology. Smart cards, with their microcontroller chip, have significantly more memory and processing power, which is what makes them more secure and functional, having majorly replaced magnetic stripe cards.

May/June 2008

97. Consider the following types of payment instruments:

1. Closed System PPIs
2. Semi-closed System PPIs
3. Open System PPIs
4. Credit Cards

Which of these do NOT permit cash withdrawal?

(A) 1 and 4 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 3 and 4 only

Ans :

(B) 1 and 2 only

The text specifies the cash withdrawal capabilities of different instruments. Closed System PPIs do not permit cash withdrawal. Semi-closed System PPIs also do not permit cash withdrawal, irrespective of the issuer. In contrast, Open System PPIs (issued by banks) and Credit Cards both offer the facility of cash withdrawal, albeit with different terms.

Oct/Nov 2013

98. A customer uses her debit card to pay for groceries worth ₹2,500. At the point of sale, the transaction is declined, although she has a balance of ₹30,000 in her account. The screen shows a message "System Error - Try Later". Which statement is true regarding the bank's liability?

(A) The bank is not liable as the breakdown was recognizable to the cardholder via the message
(B) The bank is fully liable for any direct loss to the customer as it is a system malfunction
(C) The bank is only liable if the transaction was attempted at one of the bank's own terminals
(D) The customer is liable and must pay a standard transaction failure fee to the bank

NODIA

Clearing Service (NECS). These systems are centrally managed and facilitate nationwide electronic funds transfers.

Oct/Nov 2023

5. Which legislation was enacted in 2007 to provide for the regulation and supervision of payment systems in India and designated the RBI as the primary authority for this purpose?
(A) The Negotiable Instruments Act, 1881
(B) The Reserve Bank of India Act, 1934
(C) The Payment and Settlement Systems Act, 2007
(D) The Banking Regulation Act, 1949

Ans :

(C) The Payment and Settlement Systems Act, 2007
The Payment and Settlement Systems Act, 2007, was a landmark legislation that significantly strengthened India's payment infrastructure. It provides a legal framework for the regulation and supervision of all payment systems within the country and formally designates the Reserve Bank of India as the overarching authority responsible for overseeing these systems to ensure their stability and efficiency.

May/June 2009

6. What are the primary objectives of the National Electronic Funds Transfer (NEFT) system?
(A) To facilitate only high-value corporate transactions and manage all international remittance corridors
(B) To create an efficient electronic funds transfer system and reduce reliance on paper-based clearing
(C) To completely replace the RTGS system with a new batch-processing framework for all payment values
(D) To exclusively manage the disbursal of government subsidies and the payment of all national pensions

Ans :

(B) To create an efficient electronic funds transfer system and reduce reliance on paper-based clearing
The NEFT system was introduced by the RBI with two main goals. The first was to create an electronic fund transfer system that is efficient, secure, economical, reliable, and fast for the entire banking sector in India. The second objective was to reduce the burden and stress on the existing paper-based funds transfer and clearing systems like cheques and drafts.

Oct/Nov 2012

7. The National Electronic Funds Transfer (NEFT) system operates on which of the following settlement bases?
(A) Real Time Gross Settlement (RTGS)
(B) Pre-funded Gross Settlement (PGS)
(C) Continuous Net Settlement (CNS)
(D) Deferred Net Settlement (DNS)

Ans :

(D) Deferred Net Settlement (DNS)
The NEFT system functions on a Deferred Net Settlement (DNS) basis. This means that transactions are not settled individually in real-time as they occur. Instead, they are accumulated and processed in batches at specific, frequent intervals throughout the day. The net positions of participating banks are then settled at the end of each batch cycle.

May/June 2025

8. A person without a bank account wishes to remit ₹55,000 in cash to a relative's account in another city using NEFT. The person approaches a NEFT-enabled bank branch. What should be the bank's response?
(A) Refuse the transaction, stating the cash remittance limit is less than ₹50,000
(B) Accept the cash and process the transaction, as there are no limits for walk-in customers
(C) Refuse the transaction, explaining that NEFT is a facility exclusively for bank account holders
(D) Advise the person to split the amount, processing it as two separate cash transactions

Ans :

(A) Refuse the transaction, stating the cash remittance limit is less than ₹50,000
The NEFT system allows individuals who do not have a bank account (walk-in customers) to deposit cash at NEFT-enabled branches for fund transfers. However, such cash-based remittances are explicitly restricted to a maximum amount of less than ₹50,000 per transaction. Therefore, the bank must decline the request to remit ₹55,000 in a single transaction.

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Oct/Nov 2016

9. What is the one-way cross-border transfer facility available under the NEFT system for remitting funds from India to another country?
(A) The India-US Remittance Gateway
(B) The India-GCC Remittance Corridor
(C) The Indo-Nepal Remittance Facility Scheme
(D) The SAARC Funds Transfer Scheme

Ans :

(C) The Indo-Nepal Remittance Facility Scheme
The NEFT system extends beyond domestic transfers to facilitate a specific one-way cross-border remittance. This is known as the Indo-Nepal Remittance Facility Scheme, which allows for the transfer of funds from India to Nepal. This feature makes NEFT a versatile tool for a specific international corridor, in addition to its primary role in nationwide payments.

May/June 2011

10. For NEFT transactions initiated via internet or mobile banking by Savings Account holders, what change regarding charges was implemented from January 1, 2020?
(A) All applicable transaction charges were completely removed
(B) Charges were reduced by a fixed rate of 50% for all transaction value slabs
(C) A new flat fee of ₹1 was introduced for all online transactions regardless of amount
(D) Charges were restructured to be applicable only on high-value transactions above ₹2 lakh

Ans :

(A) All applicable transaction charges were completely removed
To promote digital transactions and encourage the use of online banking channels, the RBI mandated a significant change effective from January 1, 2020. All applicable charges on NEFT transactions that are initiated online through internet banking or mobile banking portals by Savings Account holders were completely removed, making these transfers free of cost for such customers.

Oct/Nov 2009

11. Following the transition to 24x7 operations, how many half-hourly batches for NEFT transactions are processed every day?
(A) 24 batches
(B) 36 batches
(C) 12 batches
(D) 48 batches

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Ans :

(D) 48 batches
With the implementation of round-the-clock availability, the NEFT system now operates with 48 half-hourly batches every day. The settlement of the first batch commences at 12:30 a.m. (after midnight), and the cycle continues with a new batch every 30 minutes, with the final batch of the day ending at 12:00 a.m. (midnight).

May/June 2017

12. What is the stipulated discipline for a destination bank regarding an inward NEFT transaction?
(A) Credit the beneficiary account within 24 hours of the batch settlement
(B) Credit the beneficiary account or return the transaction within 2 hours of the respective batch settlement
(C) Credit the beneficiary account within the same business day of the transaction
(D) Return the transaction within 4 hours of batch settlement if credit is not possible

Ans :

(B) Credit the beneficiary account or return the transaction within 2 hours of the respective batch settlement
A strict timeline is enforced for handling inward NEFT transactions to ensure efficiency and accountability. The destination bank is required to either credit the beneficiary's account or, if crediting is not possible for any reason, return the transaction to the originating bank. This action must be completed within two hours of the settlement of that specific batch.

Oct/Nov 2020

13. An NEFT transaction of ₹75,000 was initiated by a customer, but the amount was neither credited to the beneficiary nor returned to the remitter within the stipulated time. What is the liability of the bank in this situation?
(A) The bank is not liable for any penalty, as such operational delays are considered unintentional errors
(B) The bank is only required to refund the principal amount in full without any additional interest or penalty

(C) The bank must pay penal interest to the customer at the RBI-stipulated rate for the delay period
(D) The bank must pay a standardized fixed penalty of ₹500 to the customer, regardless of the transaction amount

Ans :

(C) The bank must pay penal interest to the customer at the RBI-stipulated rate for the delay period
In case an NEFT transaction is not credited or returned within the stipulated time, banks are liable to pay penal interest to the affected customer. The rate of this penal interest is specified as the current RBI LAF Repo Rate plus 2%. This compensation is for the period of delay and must be paid without the customer lodging a specific claim.

May/June 2005

14. Which of the following is NOT a party to a funds transfer under the NEFT System?
(A) The Sending Bank
(B) The NEFT Clearing Centre
(C) The Receiving Service Centre
(D) The Beneficiary's Employer

Ans :

(D) The Beneficiary's Employer
The NEFT system process flow involves specific designated entities. The parties to a funds transfer are the Sending Bank, the Sending Service Centre (pooling centre), the NEFT Clearing Centre (operated by RBI), the Receiving Service Centre, and the Beneficiary Branch. The beneficiary's employer is not a direct participant in the technical or settlement flow of the NEFT transaction itself.

Oct/Nov 2011

15. In the NEFT process flow, what is the role of the NEFT Clearing Centre operated by the National Clearing Cell, RBI, Mumbai?
(A) It sorts transactions, prepares accounting entries, and routes messages to destination banks
(B) It directly debits the remitter's account and instantly credits the final beneficiary's account
(C) It is responsible for providing the initial application form and all necessary documents to the remitting customer
(D) It is solely responsible for handling the final inter-bank settlement of funds at the end of the business day

Ans :

(A) It sorts transactions, prepares accounting entries, and routes messages to destination banks
The NEFT Clearing Centre acts as the central processing hub. After receiving messages from various pooling centres, it sorts the fund transfer transactions based on the destination bank. It then prepares the necessary accounting entries to debit the originating banks and credit the destination banks, and forwards the bank-wise remittance messages to their respective pooling centres for final credit.

May/June 2023

16. According to the rights and obligations of customers and banks in NEFT, when does a payment instruction become irrevocable?
(A) As soon as the customer submits the physical or digital application form
(B) Once it has been executed by the bank in accordance with security procedures
(C) After the funds have been successfully credited to the beneficiary's account
(D) 24 hours after the customer initially provides the payment instruction

Ans :

(B) Once it has been executed by the bank in accordance with security procedures
A key rule governing NEFT transactions is the point of irrevocability. A payment instruction issued by a customer becomes final and cannot be revoked once the bank has executed it. The bank is not bound by any notice of revocation from the customer after this point, provided the execution was in compliance with the established security procedures.

Oct/Nov 2025

17. Which of the following statements regarding the rights and obligations in the NEFT system is incorrect?
(A) The customer is responsible for the accuracy of the particulars in the payment instruction
(B) A customer can revoke a payment instruction at any time before the beneficiary receives the credit confirmation
(C) The customer must ensure the availability of funds in his account when issuing the

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amendment, and cancellation processes for customers and banks.

May/June 2008

44. What is the maximum amount capped for e-mandates processed under the NACH system?
(A) ₹50,000 per mandate
(B) ₹1 lakh per mandate
(C) ₹2 lakh per mandate
(D) There is no cap on e-mandates

Ans :

(B) ₹1 lakh per mandate
While NACH facilitates transactions of various sizes, there is a specific limit for mandates created electronically, known as e-mandates. To manage risk and define the operational scope for this particular type of mandate, the amount for e-mandates is capped. The maximum permissible amount for a single e-mandate transaction is ₹1 lakh.

Oct/Nov 2013

45. A bank takes 9 days to process a NACH mandate for an amount below ₹3 lakh. According to the NPCI penalty structure on pending mandates, what is the financial consequence for the bank?
(A) A penalty of ₹10 per mandate
(B) An incentive of ₹5 per mandate
(C) No penalty and no incentive
(D) A penalty of ₹5 per mandate

Ans :

(C) No penalty and no incentive
NPCI has a tiered structure for penalties and incentives based on the Turn-Around Time (TAT) for processing mandates below ₹3 lakh. Processing within 0 to 7 days earns an incentive of ₹5. Processing between 8 to 10 days, as in this case of 9 days, falls into a neutral zone where there is neither a penalty nor an incentive.

May/June 2015

46. As per the mandate processing charges levied by NPCI from January 01, 2018, how is the ₹1.50 charge per mandate for initiation/modification/cancellation distributed between the initiating and receiving banks?
(A) ₹1.50 on initiating bank, ₹0 on receiving bank
(B) ₹0.75 on initiating bank, ₹0.75 on receiving bank
(C) ₹0.50 on initiating bank, ₹1.00 on receiving bank
(D) ₹1.00 on initiating bank, ₹0.50 on receiving bank

Ans :

(D) ₹1.00 on initiating bank, ₹0.50 on receiving bank
NPCI levies a charge of ₹1.50 for each mandate that is initiated, modified, or cancelled through the NACH system. This charge is not borne by a single entity but is split between the two banks involved in the process. The initiating bank (Sponsor Bank) is charged ₹1.00, and the receiving bank (Destination Bank) is charged the remaining ₹0.50.

Oct/Nov 2012

47. In NACH settlement, what does a 'T+0' basis signify?
(A) The transaction is processed for same-day credit to the beneficiary
(B) The transaction is settled on the next business day after initiation
(C) The transaction is held in a warehousing facility for future settlement
(D) The transaction is held for two business days before final settlement

Ans :

(A) The transaction is processed for same-day credit to the beneficiary
The 'T+0' settlement cycle in NACH refers to "Transaction day + 0 days". This means that the processing and settlement occur on the same day the transaction is initiated. For a NACH Debit, the Sponsor Bank credits the beneficiary on the same day. For a NACH Credit, the Destination Bank credits the beneficiary upon receipt of funds on that day.

May/June 2011

48. Which of the following services is NOT offered by the Aadhaar Enabled Payment System (AePS)?
(A) Cash Withdrawal
(B) Opening a new bank account
(C) Balance Enquiry
(D) Aadhaar to Aadhaar Fund Transfer

Ans :

(B) Opening a new bank account
The Aadhaar Enabled Payment System (AePS) is a payment service that allows basic banking transactions through a Business Correspondent.

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Inter Bank Transactions are a specific category within the RTGS system used by participating banks to settle their own financial obligations. These typically arise from their own treasury operations, including money market deals, debt market deals, and foreign exchange transactions. They are distinct from transactions initiated on behalf of customers or for securities settlement.

May/June 2005

22. What is the minimum amount that can be remitted through the RTGS system for customer-based transactions?
(A) ₹1 lakh
(B) ₹2 lakh
(C) ₹5 lakh
(D) There is no minimum amount

Ans :

(B) ₹2 lakh
The RTGS system is designed primarily for high-value transactions. For customer-based transactions, there is a minimum threshold for the amount to be remitted. This minimum amount is set at ₹2 lakh. Transactions below this value are typically routed through other electronic payment systems like NEFT. There is, however, no upper ceiling for RTGS transactions.

Oct/Nov 2022

23. Which of the following pieces of information is NOT required to be furnished by a remitting customer for initiating an RTGS remittance?
(A) IFSC Number of the receiving branch
(B) Account number of the beneficiary customer
(C) Name of the beneficiary customer
(D) The beneficiary's PAN number

Ans :

(D) The beneficiary's PAN number
To initiate an RTGS transaction, the remitter must provide several critical details to ensure the funds reach the correct destination. These include the amount, the remitter's account number, the beneficiary's name, bank, branch, and account number, and the IFSC of the receiving branch. The beneficiary's PAN number is not a mandatory field for the RTGS message itself.

May/June 2018

24. Based on the table "Cut-off Times in the RTGS System at RBI (effective September 1, 2015)", what was the final cut-off time for Inter-bank transactions on regular working days?
(A) 19:45 hours
(B) 16:30 hours
(C) 20:00 hours
(D) 08:00 hours

Ans :

(A) 19:45 hours
The provided table specifies the cut-off times for the RTGS system as of September 1, 2015. According to this table, the "Final Cut-off (Inter-bank transactions)" was set at 19:45 hours. This was the deadline for banks to submit their own transactions for settlement on that day, which was later than the cut-off for customer transactions.

Oct/Nov 2016

25. As per the service charge structure for outward RTGS transactions, what is the maximum charge (excluding GST) for a transaction of ₹3.5 lakh?
(A) A base charge of ₹50 plus time-varying tariff, capped at a maximum of ₹55
(B) A fixed charge of ₹24.50, with no additional time-varying tariff applied
(C) A base charge of ₹25 plus time-varying tariff, capped at a maximum of ₹30
(D) A fixed charge of ₹49.50, with no additional time-varying tariff applied

Ans :

(C) A base charge of ₹25 plus time-varying tariff, capped at a maximum of ₹30
The table on maximum service charges specifies different slabs. For an outward transaction in the value band of ₹2 lakh to ₹5 lakh, which includes ₹3.5 lakh, the charge is ₹25 plus the applicable time-varying tariff. However, this total charge is capped at a maximum of ₹30, ensuring a ceiling on the cost for the customer.

May/June 2014

26. With a view to rationalise RTGS service charges, what is the maximum charge (exclusive of taxes) that a bank can levy for an outward transaction above ₹5 lakh?
(A) Not exceeding ₹49.50
(B) Not exceeding ₹24.50
(C) Not exceeding ₹30.00
(D) Not exceeding ₹55.00

Ans :

(A) Not exceeding ₹49.50

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instruction
(D) A participating bank must maintain the security, integrity, and efficiency of the system

Ans :

(B) A customer can revoke a payment instruction at any time before the beneficiary receives the credit confirmation
A payment instruction becomes irrevocable once it is executed by the bank, not when the beneficiary receives confirmation. The bank is not bound by any notice of revocation after execution if it has complied with the security procedure. The other statements correctly describe the responsibilities of the customer and the bank within the NEFT framework, ensuring system integrity and transactional accuracy.

May/June 2012

18. If a customer's complaint regarding an NEFT transaction is not resolved by the bank, what is the next step of recourse available to the customer?
(A) Complain to the Banking Ombudsman if the complaint is not resolved within thirty days
(B) File a civil suit against the bank in a court of law immediately
(C) Report the issue directly to the National Payments Corporation of India (NPCI)
(D) Send a formal legal notice to the Reserve Bank of India (RBI) headquarters

Ans :

(A) Complain to the Banking Ombudsman if the complaint is not resolved within thirty days
The NEFT framework provides a clear grievance redressal mechanism. If a customer has a complaint that the bank fails to resolve satisfactorily within a period of thirty days, the customer is entitled to escalate the matter. The prescribed next step is to lodge a complaint with the Banking Ombudsman, an authority established to handle such disputes.

Oct/Nov 2014

19. The acronym 'RTGS' stands for Real Time Gross Settlement. What does 'Gross Settlement' signify in this context?
(A) Settlement of all transactions in a single large batch at the end of the day
(B) The gross total value of all transactions processed by the system in a fiscal year
(C) Settlement of funds transfer instructions individually on an instruction-by-instruction basis
(D) Settlement occurring only at the end of the business day for all participants

Ans :

(C) Settlement of funds transfer instructions individually on an instruction-by-instruction basis
The 'Gross Settlement' component of RTGS means that each fund transfer instruction is settled individually, on a one-to-one, order-by-order basis. This is in contrast to netting systems like NEFT, where transactions are bundled together in batches for settlement. Gross settlement ensures that each transaction is processed and finalized independently of any other transaction.

May/June 2019

20. Which of the following is NOT a feature of the new RTGS system launched under the "RTGS system Regulations 2013"?
(A) Hybrid features for liquidity management
(B) Future value dated transaction processing
(C) Centralised Anti Money Laundering filtering
(D) Batch processing of transactions for efficiency

Ans :

(D) Batch processing of transactions for efficiency
The "RTGS system Regulations 2013" introduced an upgraded RTGS system with several advanced features. These included hybrid features, the ability to process future value dated transactions, and a Centralised Anti Money Laundering (AML) filtering mechanism. Batch processing is characteristic of NEFT, not RTGS, which is defined by its individual, gross settlement of transactions in real-time.

Oct/Nov 2010

21. Which type of transaction in the RTGS system is used by participant banks to settle their own financial obligations, such as those arising from treasury operations?
(A) Customer Payment Transactions
(B) Delivery Vs Payment Transactions
(C) Inter Bank Transactions
(D) Own Account Transactions

Ans :

(C) Inter Bank Transactions

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salaries (ECS Credit) or for collecting multiple payments like utility bills, loan installments, and insurance premiums (ECS Debit) from many accounts.

Oct/Nov 2011

31. In the context of Electronic Clearing Services, which variant is used by an institution to credit a large number of beneficiaries like employees, investors, or pensioners?

(A) ECS Credit
(B) ECS Debit
(C) ECS Returns
(D) ECS Mandate

Ans :

(A) ECS Credit
ECS Credit is the variant used for making bulk payments to multiple beneficiaries. An institution, known as the ECS User, initiates these payments through its sponsor bank to afford credit to the bank accounts of a large number of individuals. Common examples include the distribution of salary, dividend, interest, and pension payments, streamlining the entire process.

May/June 2010

32. In an ECS Credit transaction, who is responsible for communicating the details of the credit, including the proposed date and amount, to the ultimate beneficiary?

(A) The sponsor bank that initiates the transaction file
(B) The user institution making the payment (e.g., the employer)
(C) The destination bank where the beneficiary holds an account
(D) The ECS Centre operated by the central bank or clearing house

Ans :

(B) The user institution making the payment (e.g., the employer)
While banks facilitate the transaction, the primary responsibility for communicating payment details to the beneficiary rests with the user institution (e.g., the employer paying salary or the company paying dividends). This institution must inform the beneficiary about the particulars of the credit being afforded to their account, such as the amount and the expected date of credit.

Oct/Nov 2024

33. What is the penalty for a destination bank in case of delayed credit to a beneficiary's account under the ECS Credit scheme?

(A) A fixed penalty of ₹100 per day of delay, paid to the regulator
(B) Penal interest at the prevailing RBI LAF Repo rate plus two percent
(C) Penal interest calculated at the bank's own base lending rate
(D) A penalty amount decided at the discretion of the user institution

Ans :

(B) Penal interest at the prevailing RBI LAF Repo rate plus two percent
To ensure timely credit to beneficiaries, a penal provision exists for delays by the destination bank in the ECS Credit system. If a bank delays the credit, it is liable to pay penal interest from the due date until the actual credit date. The rate is set at the prevailing RBI LAF Repo Rate plus 2%, and it must be credited to the beneficiary's account.

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May/June 2017

34. An insurance company uses ECS Debit to collect monthly premiums. A customer's premium payment fails due to insufficient funds in their account. This event is treated with the same severity as which other financial event?

(A) The dishonour of a cheque, which has specific legal consequences for the issuer
(B) A late credit card payment, which typically incurs late fees and interest charges
(C) A default on a personal loan, which affects the borrower's credit history
(D) A failure to file income tax returns, which results in penalties from tax authorities

Ans :

(A) The dishonour of a cheque, which has specific legal consequences for the issuer
Section 25 of the Payment and Settlement Systems Act, 2007, accords the same legal status to the dishonour of an electronic funds transfer as to the dishonour of a cheque. This means that if an ECS Debit instruction fails for want of sufficient funds, the payee has the same rights and remedies against the payer as available under Section 138 of the Negotiable Instruments Act.

RBI has mandated a broad framework for RTGS service charges to ensure they are rational and not excessive. For outward transactions with a value above ₹5 lakh, the charge that banks can levy on customers is capped. This maximum permissible charge is ₹49.50, exclusive of any applicable taxes like GST. Banks are free to charge less but cannot exceed this limit.

Oct/Nov 2007

27. Under normal circumstances, what is the maximum time a beneficiary bank has to credit the beneficiary's account after receiving the funds transfer message in an RTGS transaction?
(A) Two hours
(B) One hour
(C) End of the business day
(D) 30 minutes

Ans :

(D) 30 minutes
The RTGS system is designed for speed and certainty. To ensure this, a strict timeline is prescribed for the final leg of the transaction. The beneficiary bank is expected to credit the beneficiary's account within 30 minutes of receiving the funds transfer message from the RBI. This ensures near real-time availability of funds to the recipient.

May/June 2025

28. A remitting bank initiates an RTGS transfer. The funds are received by the beneficiary bank, but they discover the beneficiary account number does not exist. What is the prescribed timeline for the beneficiary bank to act?
(A) Return the funds to the remitting bank within 24 hours
(B) Return the funds within one hour of receipt or before the end of the RTGS business day, whichever is earlier
(C) Hold the funds in a suspense account indefinitely until the remitter provides correct details
(D) Return the funds to the remitting bank within 30 minutes of receipt of the payment

Ans :

(B) Return the funds within one hour of receipt or before the end of the RTGS business day, whichever is earlier
In situations where an RTGS credit cannot be processed (e.g., account does not exist, is frozen), the receiving bank must not hold the funds. The rules mandate that the funds be returned to the originating RTGS member. This must happen within one hour of receiving the payment or before the end of the RTGS business day, whichever is the earlier of the two.

Oct/Nov 2019

29. What is the fundamental difference between the settlement mechanism of RTGS and NEFT?
(A) RTGS is primarily for low-value transactions, while NEFT is designed for high-value transactions
(B) RTGS processes transactions in half-hourly batches, while NEFT processes them continuously in real-time
(C) RTGS is based on gross settlement, while NEFT is based on net-settlement (Deferred Net Basis)
(D) RTGS transactions are freely revocable by the sender, while NEFT transactions are irrevocable once sent

Ans :

(C) RTGS is based on gross settlement, while NEFT is based on net-settlement (Deferred Net Basis)
The core distinction lies in their settlement models. RTGS operates on a gross settlement basis, where each transaction is settled individually and continuously on a one-to-one basis. In contrast, NEFT uses a Deferred Net Settlement (DNS) or net-settlement basis, where transactions are bundled, processed in batches at specific times, and the net amounts are settled.

May/June 2009

30. Which electronic payment mode is specifically designed for transactions that are repetitive and periodic in nature, such as salary payments or utility bill collections?
(A) Real Time Gross Settlement (RTGS)
(B) National Electronic Funds Transfer (NEFT)
(C) Aadhaar enabled Payment System (AePS)
(D) Electronic Clearing Services (ECS)

Ans :

(D) Electronic Clearing Services (ECS)
Electronic Clearing Services (ECS) is an electronic mode of payment specifically tailored for handling bulk transactions that are periodic and repetitive. It is used by institutions for making multiple payments like dividends, interest, and

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The Aadhaar Payment Bridge (APB) System is a key component of the NACH infrastructure, specifically developed by NPCI to support the government's Direct Benefit Transfer (DBT) scheme. This system acts as a bridge, linking government departments and their sponsor banks with beneficiary banks and the beneficiaries themselves, using the Aadhaar number as the central financial address for the transfers.

May/June 2024

40. Which of the following is NOT a stated benefit of NACH for an organization?
(A) Automatic investment of idle funds into money market instruments
(B) No dependence on physical cheques or manual clearance processes
(C) Faster processing of bulk payments like scholarships and subsidies
(D) Improved customer service and streamlined bill payment processes

Ans :

(A) Automatic investment of idle funds into money market instruments
NACH offers several benefits to organizations, including eliminating reliance on physical cheques, speeding up the processing of payments like salaries and subsidies, and improving overall customer service related to billing. However, NACH is a payment and collection system; it does not offer services like the automatic investment of an organization's idle funds, which falls under treasury management.

Oct/Nov 2008

41. How does NACH improve upon ECS in terms of issue resolution?
(A) NACH processes are intentionally slower, allowing more time for participants to catch errors
(B) NACH uses the same manual dispute system as ECS but with a new name and logo
(C) NACH has a well-defined online Dispute Management System (DMS) for participants
(D) NACH outsources all dispute resolution to an independent third-party arbitration firm

Ans :

(C) NACH has a well-defined online Dispute Management System (DMS) for participants
A significant advantage of NACH over the older ECS system is its structured approach to handling problems. NACH includes a well-defined Dispute Management System (DMS) that provides a formal mechanism for participants to raise and resolve issues. This feature was absent in the ECS framework, making NACH a more robust and accountable platform for all stakeholders.

May/June 2006

42. In the NACH ecosystem, what is the role of a "Destination Bank"?
(A) It is the bank that authorises or rejects a mandate and processes payments for its customer
(B) It is the bank that forwards the mandate given by its corporate customer to NPCI
(C) It is the corporate or government department that is using the NACH service to collect funds
(D) It is the central bank entity that created the Aadhaar Payment Bridge system

Ans :

(A) It is the bank that authorises or rejects a mandate and processes payments for its customer
A Destination Bank is the bank of the end-customer whose account will be debited or credited. Its primary role is to receive the mandate from the Sponsor Bank via NPCI, validate the customer's details, and then either authorise or reject the mandate. For an approved mandate, it is responsible for processing the transaction (debit/credit) on the due date.

Oct/Nov 2017

43. What is the unique identifier for each mandate in the NACH Mandate Management System (MMS) that makes tracking easier for customers?
(A) Mandate Identification Number (MIN)
(B) Customer Reference Number (CRN)
(C) Transaction ID (TID)
(D) Unique Mandate Reference Number (UMRN)

Ans :

(D) Unique Mandate Reference Number (UMRN)
The Mandate Management System (MMS) is a core part of NACH. To ensure clear identification and easy tracking of each mandate, the system assigns a Unique Mandate Reference Number (UMRN) to every registered mandate. This UMRN serves as a distinct identifier throughout the lifecycle of the mandate, simplifying tracking,

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Oct/Nov 2005

35. What is the maximum punishment stipulated under sub-section (5) of Section 25 of the Payment and Settlement Systems Act, 2007, for the dishonour of an electronic funds transfer?
(A) Imprisonment for 6 months and a fine up to the amount of the transfer
(B) Imprisonment for 1 year and a fine up to twice the amount of the transfer
(C) Imprisonment for 2 years, or a fine up to twice the amount of the transfer, or both
(D) A fine up to five times the amount of the transfer only, with no imprisonment

Ans :

(C) Imprisonment for 2 years, or a fine up to twice the amount of the transfer, or both
The legal consequences for the dishonour of an electronic funds transfer due to insufficient funds are severe. Sub-section (5) of Section 25 of the PSS Act, 2007, provides for a punishment of imprisonment for a term which may extend to two years, or a fine which may extend to twice the amount of the electronic funds transfer, or both.

May/June 2020

36. Which category of ECS scheme is operated at Mumbai and facilitates the coverage of all core-banking enabled branches located anywhere in the country?
(A) Local ECS
(B) Regional ECS (RECS)
(C) Zonal ECS
(D) National ECS (NECS)

Ans :

(D) National ECS (NECS)
National ECS (NECS) is the centralized version of the Electronic Clearing Service. Operated from Mumbai by the RBI, its key feature is its nationwide reach. It facilitates the coverage of all core-banking enabled branches across India, irrespective of their location. This allows institutions to make or receive bulk payments from accounts anywhere in the country through a single, centralized system.

Oct/Nov 2015

37. Which of the following is an advantage of the ECS system for a mandate issuer?
(A) The ability to earn a higher rate of interest on their bank account balance
(B) Receiving an automatic discount from the biller on every payment made
(C) It is hassle-free as it saves time from issuing cheques for each periodic payment
(D) The mandate can only be changed by visiting the bank branch in person for security

Ans :

(C) It is hassle-free as it saves time from issuing cheques for each periodic payment
For the person or entity issuing the mandate (the payer), a primary advantage of ECS is the convenience and time saved. By setting up an ECS mandate, they eliminate the repetitive task of issuing a physical cheque for each periodic payment, such as a loan EMI or insurance premium. The payment process becomes automated, making it hassle-free for the issuer.

May/June 2013

38. On which date did the National Automated Clearing House (NACH) system officially take the place of the existing ECS system?
(A) July 1, 2019
(B) May 1, 2016
(C) January 1, 2020
(D) August 1, 2021

Ans :

(B) May 1, 2016
The transition from the multiple, disparate Electronic Clearing Systems to a unified, centralized platform was a major step in payment system reform. The National Automated Clearing House (NACH) system, implemented by the National Payments Corporation of India (NPCI), formally took the place of the older ECS systems on May 1, 2016, providing a more robust and feature-rich platform.

Oct/Nov 2021

39. What is the name of the NACH system developed by NPCI that has been instrumental in successfully channelizing government subsidies and benefits to beneficiaries using their Aadhaar numbers?
(A) Direct Credit Transfer (DCT) System
(B) Government Subsidy Portal (GSP)
(C) Beneficiary Identification System (BIS)
(D) Aadhaar Payment Bridge (APB) System

Ans :

(D) Aadhaar Payment Bridge (APB) System

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The services offered include Cash Withdrawal, Cash Deposit, Balance Enquiry, Aadhaar to Aadhaar Fund Transfer, and obtaining a Mini Statement. Opening a new bank account is a separate, more involved process and is not a service provided through AePS transactions.

Oct/Nov 2020

49. What is the primary objective of the Bharat Bill Payment System (BBPS)?

(A) To provide a dedicated platform exclusively for settling international utility bills
(B) To establish a unified and interoperable bill payment system for all customers across India
(C) To completely replace all existing electronic payment systems like NEFT and RTGS
(D) To create a specialized system to facilitate only the collection of government taxes

Ans :

(B) To establish a unified and interoperable bill payment system for all customers across India
The core objective of BBPS is to establish a unified bill payment ecosystem in India. It aims to offer an interoperable and easily accessible service, allowing customers to pay various bills anytime and from anywhere through a network of agents and multiple payment modes. The system guarantees certainty, reliability, and safety of transactions with instant confirmation.

May/June 2022

50. In the Bharat Bill Payment System (BBPS) architecture, which entity is authorized by the RBI to set business standards, rules, and procedures and also undertakes clearing and settlement activities?

(A) Bharat Bill Payment Central Unit (BBPCU)
(B) Bharat Bill Payment Operating Unit (BBPOU)
(C) Agent Institution
(D) Biller/Utility Company

Ans :

(A) Bharat Bill Payment Central Unit (BBPCU)
The National Payments Corporation of India (NPCI) has been authorized by the RBI to function as the Bharat Bill Payment Central Unit (BBPCU). This central unit is the apex body responsible for the overall functioning of the BBPS. Its duties include setting the operational and technical standards for all participants and managing the clearing and settlement of all transactions routed through the system.

Oct/Nov 2023

51. In the BBPS ecosystem, what is a Bharat Bill Payment Operating Unit (BBPOU)?

(A) The central governing body that oversees the entire system and sets rules
(B) The final customer touchpoint, such as a physical retail outlet or agent location
(C) An entity authorized by RBI, which can be a bank or non-bank, that connects to the system
(D) The service provider, such as an electricity company, that generates bills and receives payment

Ans :

(C) An entity authorized by RBI, which can be a bank or non-bank, that connects to the system
A BBPOU is an operational entity, authorized by the RBI, that participates in the BBPS. It can be a bank or a non-bank institution. A BBPOU acts as an intermediary, connecting either the customers (as a Customer OU) or the billers (as a Biller OU) to the central BBPS network. Some BBPOUs may choose to integrate with both sides.

May/June 2016

52. Which of the following is NOT listed as a current category of biller eligible to participate in Bharat Bill Pay?

(A) Electricity
(B) DTH
(C) Gas
(D) International subscription services

Ans :

(D) International subscription services
The RBI specifies the categories of billers eligible for participation in the BBPS. The current eligible categories include essential services such as Electricity, Telecom (Post-paid, Landline, Broadband), DTH, Gas, and Water. While the system is designed to expand, international subscription services are not part of the currently specified list of eligible biller categories.

Oct/Nov 2009

53. What significant announcement was made on August 5, 2022, regarding foreign remittances and BBPS?

(A) BBPS was permanently discontinued for all

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correct explanation of (A)
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A)
(C) (A) is true but (R) is false
(D) (A) is false but (R) is true

Ans :

(C) (A) is true but (R) is false
The assertion (A) is true; the report states that direct debits in India grew at a CAGR of 38.6%, the fastest among the benchmarked nations, earning it a 'Leader' rating for growth. However, the reason (R) is false. The report explicitly mentions that in terms of absolute volume, direct debits in India are lower than in major economies like the USA, Germany, and Brazil.

May/June 2025

70. According to the Worldpay Global Payments Report 2022, what percentage of online transactions in India are undertaken using digital/mobile wallets (e-Money)?
(A) 25%
(B) 45%
(C) 35%
(D) 60%

Ans :

(B) 45%
The benchmarking report cites the Worldpay Global Payments Report 2022, which provides insight into online payment methods. According to this source, a significant 45% of all online transactions in India were conducted using digital or mobile wallets, a form of e-Money. This highlights the prominent role of wallets and UPI-linked applications in India's e-commerce and online payment landscape.

Oct/Nov 2019

71. How did the share of e-Money in India's total payment systems volume change between 2017 and 2020, and what was a potential reason for this change?
(A) It increased from 12.2% to 22.1% due to the rapid growth of mobile wallets
(B) It remained stable at around 20% due to consistent usage patterns by customers
(C) It decreased from 36.5% to 22.1% due to new RBI restrictions on PPIs
(D) It decreased from 22.1% to 12.2%, possibly due to the increased use of other modes like UPI

Ans :

(D) It decreased from 22.1% to 12.2%, possibly due to the increased use of other modes like UPI
Contrary to the growth in absolute volume, the relative share of e-Money transactions in the overall payment mix decreased from 22.1% in 2017 to 12.2% in 2020. The report suggests that this fall in share could be read in conjunction with the massive increase in the usage of other modes, particularly direct-to-account systems like UPI.

May/June 2009

72. What was the rating change for the 'Digital payments of utility bills' indicator, and which system's introduction was credited for this improvement?
(A) From 'Weak' to 'Moderate', due to the introduction of BBPS
(B) From 'Strong' to 'Leader', due to the expansion of NEFT
(C) From 'Moderate' to 'Strong', due to the popularity of UPI
(D) From 'Leader' to 'Weak', due to the discontinuation of an old system

Ans :

(A) From 'Weak' to 'Moderate', due to the introduction of BBPS
The rating for digital utility bill payments improved from 'Weak' to 'Moderate'. This progress is directly attributed to the introduction of the Bharat Bill Payment System (BBPS) in October 2017. The BBPS created an interoperable and accessible platform that has witnessed remarkable growth in the number of billers and transactions processed, enhancing digital utility payments.

NODIA

Oct/Nov 2011

73. India's rating for 'Mobile and broadband subscriptions' per 100 individuals was downgraded from 'Strong' to 'Weak' in the 2020 report. What was the primary finding that led to this downgrade?
(A) The Compound Annual Growth Rate (CAGR) of fixed broadband subscriptions was negative
(B) The number of mobile subscriptions decreased at an annualised rate of 1.4%
(C) The number of subscriptions per 100 individuals was the lowest among

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Oct/Nov 2025

57. Which of the following statements about India's cheque-based payments, as per the 2022 RBI benchmarking report, is correct?

(A) The share of cheques in total payment systems volume increased from 1.7% to 7.5%

(B) The rate of decline of cheques was rated as 'Strong' due to the rapid shift to digital

(C) The share of cheques in total payment systems volume reduced to 1.7% in 2020

(D) India introduced the nationwide Cheque Truncation System (CTS) only in 2022

Ans :

(C) The share of cheques in total payment systems volume reduced to 1.7% in 2020

The report highlights a significant shift away from paper-based instruments. The share of cheque payments in the total volume of payment systems transactions in India saw a substantial reduction, falling from 7.5% in 2017 to just 1.7% in 2020. This indicates a rapid adoption of digital payment modes over traditional cheques for conducting transactions.

May/June 2012

58. Consider the following statements regarding India's position in debit and credit cards as of 2020:

1. India had 886 million debit cards, second only to China.
2. India's rating for the number of debit cards issued was 'Leader'.
3. India's share of card payments in total transaction volume was the highest among benchmarked countries.

Which of the statements is/are correct?

(A) 1 and 2 only

(B) 1 only

(C) 2 and 3 only

(D) 1, 2 and 3

Ans :

(A) 1 and 2 only

The report confirms that India, with 886 million debit cards, was second only to China (8178 million) and earned a 'Leader' rating for this indicator. However, statement 3 is incorrect. The report explicitly states that India's share of card payments in total transaction volume (14.7%) was the second lowest, with only Indonesia being lower.

Oct/Nov 2014

59. With 4.6 million Point of Sale (PoS) terminals deployed at the end of 2020, India's rating for this indicator improved from 'Strong' to 'Leader'. However, what weakness was highlighted regarding PoS terminal reach?

(A) The terminals were not compatible with the domestically issued RuPay cards

(B) The terminals were concentrated only in metropolitan cities, with none in rural areas

(C) The growth rate of PoS terminal deployment had become negative since 2019

(D) The number of people per PoS terminal was high at 296, indicating low density

Ans :

(D) The number of people per PoS terminal was high at 296, indicating low density

While India ranked high in the absolute number of PoS terminals, the report pointed out a weakness in terms of population coverage or reach. The 'People per PoS terminal' indicator, which stood at 296 people for every terminal, received a 'Weak' rating. This suggests that despite the large number, the density of terminals relative to the population needs improvement.

May/June 2019

60. What does the low value of 0.4 for the ratio of 'card payments vs CIC' indicate about payment preferences in India as of 2020?

(A) A high preference for using debit and credit cards over physical cash

(B) A lower preference for using debit and credit cards compared to cash

(C) A perfectly balanced preference between card-based and cash payments

(D) That card payments are primarily used for high-value transactions only

Ans :

(B) A lower preference for using debit and credit cards compared to cash

The ratio of the value of card payments to Currency in Circulation (CIC) was 0.4, which was the lowest among the benchmarked countries. The report interprets this low ratio as an indicator of a lower preference among the populace for using debit and credit cards for payments, suggesting that cash continues to be a dominant payment method by value.

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transactions involving foreign currencies
(B) All billers on the BBPS platform were required to register for foreign remittances
(C) Foreign inward remittances under the Rupee Drawing Arrangement (RDA) were allowed to be processed via BBPS
(D) BBPS was integrated with international gateways to facilitate outward bill payments from India

Ans :

(C) Foreign inward remittances under the Rupee Drawing Arrangement (RDA) were allowed to be processed via BBPS
In a move to enhance the utility of BBPS, the RBI announced a new policy on August 5, 2022. This policy allowed foreign inward remittances that are received under the Rupee Drawing Arrangement (RDA) to be channelled through the BBPS platform for payment to the KYC-compliant bank account of the beneficiary, who is typically an online biller.

May/June 2023

54. According to the 2022 RBI report on Benchmarking India's Payment System, how was India categorized for its performance across 40 indicators compared to the previous exercise?
(A) 'Leader' or 'strong' in 12 indicators, and 'weak' in 25 indicators
(B) 'Leader' or 'strong' in 25 indicators, and 'weak' in 8 indicators
(C) 'Leader' or 'strong' in all 40 indicators, showing complete dominance
(D) 'Weak' or 'moderate' in all 40 indicators, showing need for improvement

Ans :

(B) 'Leader' or 'strong' in 25 indicators, and 'weak' in 8 indicators
The 2022 benchmarking exercise, reflecting the position in 2020, showed significant improvement for India's payment ecosystem. India was categorized as a 'leader' or 'strong' in 25 out of 40 indicators, an increase from 21 in the previous exercise. Correspondingly, the number of indicators where India was rated 'weak' decreased from 12 to 8, highlighting overall progress.

Oct/Nov 2018

55. "The CIC per capita in India increased from USD 218 in 2017 to USD 288 in 2020. However, CIC per capita in India continues to be considerably lower than most of the countries included in the benchmarking exercise."
Based on this excerpt from the benchmarking report, what was India's current rating for the "CIC per capita" indicator?
(A) Weak
(B) Moderate
(C) Strong
(D) Leader

Ans :

(D) Leader
The benchmarking summary table for indicator 3, "CIC per capita," shows that India's rating improved from 'Strong' in the previous exercise to 'Leader' in the current one. Despite the per capita value being lower than in many other countries, the context of the rating system placed India in a leadership position on this specific parameter, reflecting a positive evaluation.

May/June 2007

56. The RBI's benchmarking report notes that India's rating for the 'CIC as percent of GDP' indicator changed from 'Moderate' to 'Weak'. What was the primary reason cited for this decline?
(A) Increased cash holdings during the pandemic combined with a steep contraction in GDP
(B) A rapid increase in digital payment adoption, which significantly reduced the public's need for physical cash
(C) A substantial increase in the nation's GDP that grew at a faster rate than the currency in circulation
(D) A new government directive that placed strict limits on the printing of new currency notes

Ans :

(A) Increased cash holdings during the pandemic combined with a steep contraction in GDP
The rating for 'CIC as percent of GDP' weakened because the ratio increased significantly from 10.7% in 2017 to 14.4% in 2020. This was attributed to two main factors related to the Covid-19 pandemic: a "dash for cash" where people increased their cash holdings for precautionary reasons, and a severe contraction in economic activity, which reduced the GDP (the denominator).

NODIA

segment remains minimal, comprising less than 3% of the market share.

Oct/Nov 2022

65. India's rating for 'Volume and growth of credit transfers' is 'Leader'. What reason is attributed to this dominant position?

(A) The consistently high volume of cheque-based transfers across the country
(B) The plethora of credit transfer systems available round the clock, like NEFT, RTGS, and UPI
(C) The mandatory use of credit transfers for all government salary and pension payments
(D) The recent decline in the use of mobile banking applications, leading to higher transfers via branches

Ans :

(B) The plethora of credit transfer systems available round the clock, like NEFT, RTGS, and UPI
India's leadership in credit transfers is directly attributed to its robust and diverse digital payment infrastructure. The availability of multiple, efficient, and round-the-clock credit transfer systems—such as UPI, IMPS, NEFT, and RTGS—has facilitated immediate fund transfers, leading to a massive number of transactions and a high growth rate, making India a dominant force in this area.

May/June 2018

66. How did the share of credit transfers in India's overall payment systems transactions (by volume) change between 2017 and 2020?

(A) It grew from 37.5% to 68.8%, becoming the highest among benchmarked countries
(B) It decreased from 68.8% to 37.5%, losing its top position
(C) It remained static at approximately 50% during the period
(D) It grew marginally from 37.5% to 40.2%, showing slow adoption

Ans :

(A) It grew from 37.5% to 68.8%, becoming the highest among benchmarked countries
The data shows a massive shift in payment habits towards digital credit transfers. Their share in the total volume of payment system transactions surged from 37.5% in 2017 to 68.8% in 2020. This substantial increase propelled India to the top position among the benchmarked countries for this indicator, demonstrating the widespread adoption of systems like UPI and NEFT.

Oct/Nov 2016

67. India is noted as one of the few countries with its large value payment system operating 24x7. Which system is this, and since when has it been operating round the clock?

(A) NEFT, since December 16, 2019
(B) NACH, since August 1, 2021
(C) RTGS, since December 14, 2020
(D) CTS, since January 1, 2021

Ans :

(C) RTGS, since December 14, 2020
The benchmarking report highlights India's leadership in large value payments. The Real Time Gross Settlement (RTGS) system, which is owned and operated by the RBI, began operating round the clock (24x7) from December 14, 2020. This move made India one of the few countries in the world to offer this continuous availability for its high-value payment system.

May/June 2014

68. India's leadership in 'Fast payments' is attributed to having two fast payment systems. What are they?

(A) NEFT and RTGS
(B) AePS and BBPS
(C) RuPay and VISA
(D) IMPS and UPI

Ans :

(D) IMPS and UPI
The report identifies India as a leader in fast payments, being one of the few countries with two such systems. These are the Immediate Payment Service (IMPS) and the Unified Payments Interface (UPI). The remarkable adoption of these instant payment systems has led India to dominate the number of transactions undertaken globally using such platforms.

Oct/Nov 2007

69. Assertion (A): The volume of direct debits in India registered the fastest CAGR of 38.6% between 2017 and 2020 among benchmarked countries.
Reason (R): In terms of absolute volume, direct debits in India are higher than in countries like the USA, Germany, and Brazil.

(A) Both (A) and (R) are true and (R) is the

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(B) The Information Technology Act, 2000
(C) The Payment and Settlement Systems Act, 2007 (PSS Act)
(D) The Foreign Exchange Management Act, 1999 (FEMA)

Ans :

(C) The Payment and Settlement Systems Act, 2007 (PSS Act)
India's 'Leader' rating in oversight is anchored by a strong legal foundation. The Payment and Settlement Systems Act, 2007, is the specific legislation that designates and confers upon the Reserve Bank of India the explicit authority and responsibility to regulate and supervise all payment systems operating within the country to ensure their safety, security, and efficiency.

May/June 2020

78. According to the report, what is the primary channel for cross-border personal remittances in India?
(A) Non-bank players facilitating both inward and outward remittances equally
(B) Remittances handled exclusively through designated post office branches across the country
(C) Peer-to-peer cryptocurrency transfers that bypass the formal banking system
(D) Remittances undertaken primarily through banks, with non-banks limited to facilitating inward remittances

Ans :

(D) Remittances undertaken primarily through banks, with non-banks limited to facilitating inward remittances
The report on cross-border remittance availability (Indicator 38) states that the major share of these transactions in India is undertaken through the banking system. While non-bank players are involved in the remittance market, their role is specifically restricted to facilitating inward remittances. This indicates that banks are the primary channel for the overall cross-border remittance ecosystem.

Oct/Nov 2015

79. What was India's position in terms of personal remittance inflows in the year 2020?
(A) The leader, with an 11.85% share of global remittances, amounting to over USD 83 billion
(B) Second highest globally, with a 10% share of total remittances
(C) A minor player in the global market, receiving less than USD 20 billion
(D) A moderate recipient, with approximately a 5% share of global remittances

NODIA

Ans :

(A) The leader, with an 11.85% share of global remittances, amounting to over USD 83 billion
For the indicator measuring remittance flows, India holds a clear leadership position. In the year 2020, India was the top recipient of personal remittances globally, capturing an 11.85% share of all such inflows. The total amount received by India during that year was substantial, exceeding USD 83 billion, solidifying its status as a leader in this domain.

May/June 2013

80. The cost of sending remittances to India was found to be lower than to other benchmarked countries. However, the cost of sending remittances from India was noted to be higher than from which two countries?
(A) USA and UK
(B) Russia and Singapore
(C) China and Brazil
(D) South Africa and Turkey

Ans :

(B) Russia and Singapore
The report provides a nuanced view of remittance costs. While it was cheaper to send money to India compared to other recipient countries in the benchmark, the cost of sending money from India was relatively high. Specifically, the report notes that the cost of outward remittances from India was higher than the cost from Russia and Singapore.

Oct/Nov 2021

81. Match the electronic payment system with its primary characteristic.
List-I (Payment System)
P. RTGS
Q. NEFT
R. ECS
S. AePS
List-II (Characteristic)
1. For repetitive, periodic bulk transactions.
2. Aadhaar-based authentication at Micro ATMs.

benchmarked countries
(D) The cost of mobile and broadband data in India was the highest in the world

Ans :

(C) The number of subscriptions per 100 individuals was the lowest among benchmarked countries
The downgrade to 'Weak' was a result of India's low digital infrastructure penetration relative to its population. The report found that the number of mobile subscriptions (83.6) and fixed broadband subscriptions (1.6) per 100 individuals in 2020 were the lowest among all the countries included in the benchmarking exercise, indicating a significant gap in digital access.

May/June 2010

14. What recent regulatory development led to India's rating for 'Third party payment service providers / payment aggregators' improving from 'Moderate' to 'Strong'?
(A) The introduction of guidelines to regulate payment aggregators and mandating their authorisation
(B) The nationalization of all major payment aggregator companies in India
(C) The official decision that payment gateways do not require any specific regulation
(D) The outsourcing of all payment aggregator supervision to a private-sector firm

Ans :

(A) The introduction of guidelines to regulate payment aggregators and mandating their authorisation
The rating improved to 'Strong' because of proactive regulatory measures taken by the RBI. India introduced a formal framework to regulate the activities of payment aggregators. A key part of this was mandating that all existing payment aggregators must apply for authorisation from the RBI by September 30, 2021, bringing them under direct regulatory purview.

Oct/Nov 2024

15. "In November 2021 RBI launched the Integrated Ombudsman Scheme to make the alternate dispute redressal mechanism simpler and more responsive... The Integrated Ombudsman Scheme combined the following 3 schemes (i) the Banking Ombudsman Scheme, 2006; (ii) the Ombudsman Scheme for Non-Banking Financial Companies, 2018; and (iii) the Ombudsman Scheme for Digital Transactions, 2019."
What was the rating for the 'Ombudsman' indicator?
(A) Weak
(B) Moderate
(C) Leader
(D) Strong

Ans :

(D) Strong
The benchmarking summary table for indicator 35, "Ombudsman," shows that India's rating was 'Strong' in the previous exercise and remained 'Strong' in the current one. The launch of the Integrated Ombudsman Scheme in November 2021, which consolidated three separate schemes into one, is a key development that supports this robust rating for customer dispute redressal mechanisms.

May/June 2017

16. Which organization operates as a Central Counterparty (CCP) in India, providing guaranteed clearing and settlement for transactions in money, government securities, and other markets, faring strongly in cross-country comparisons?
(A) National Payments Corporation of India (NPCI)
(B) Clearing Corporation of India Ltd (CCIL)
(C) Reserve Bank of India (RBI)
(D) Securities and Exchange Board of India (SEBI)

Ans :

(B) Clearing Corporation of India Ltd (CCIL)
The Clearing Corporation of India Ltd (CCIL) functions as the Central Counterparty (CCP) for various financial markets in India. It guarantees the clearing and settlement of transactions in key markets like money markets, government securities, foreign exchange, and derivatives. The report notes that CCIL fares strongly in cross-country comparisons, contributing to India's 'Leader' rating in this area.

Oct/Nov 2005

17. The 'Oversight of payment systems' in India is rated 'Leader'. Which legislation confers upon the RBI the right to regulate and supervise payment systems within the country?
(A) The Companies Act, 2013

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Oct/Nov 2006

61. According to the benchmarking report, what was the status of ATMs deployed in India between 2017 and 2020?

(A) The number of ATMs decreased at a Compound Annual Growth Rate (CAGR) of 2%

(B) The number of ATMs increased at a Compound Annual Growth Rate (CAGR) of 17%

(C) The number of ATMs increased at a Compound Annual Growth Rate (CAGR) of 2%

(D) The number of ATMs remained completely static with 0% growth over the period

Ans :

(C) The number of ATMs increased at a Compound Annual Growth Rate (CAGR) of 2%

The report provides specific data on the growth of ATM infrastructure. Over the period from 2017 to 2020, the number of ATMs deployed in India increased at a Compound Annual Growth Rate (CAGR) of 2%. This growth was noted to be modest compared to the 17% CAGR observed in Russia during the same period.

May/June 2021

62. Which of the following statements accurately reflects India's performance on the 'People per ATM' indicator in the 2020 benchmarking exercise?

(A) India had the lowest number of people per ATM, indicating excellent reach and density

(B) India's rating for this indicator was upgraded to 'Leader' due to rapid ATM deployment

(C) Each ATM in India catered to approximately 500 people, which was the global average

(D) India fared poorly, with a single ATM catering to over 5800 people, indicating low density

Ans :

(D) India fared poorly, with a single ATM catering to over 5800 people, indicating low density

Despite having the third-largest number of ATMs in absolute terms, India's performance on the 'People per ATM' metric was rated 'Weak'. The data showed that the reach of ATMs was poor, with a single ATM serving a large population of over 5800 people as of the end of 2020, indicating low ATM density relative to the population.

NODIA

Oct/Nov 2010

63. The rating for the indicator 'ATM withdrawal vs CIC' was modified from 'Weak' to 'Leader'. What was the rationale for this change?

(A) On review, a low ratio was considered desirable as it indicates a shift towards digital payments

(B) The number of ATMs deployed in India increased dramatically during the period

(C) The official definition of Currency in Circulation (CIC) was changed by the central bank

(D) The number of ATM withdrawals per capita saw a substantial increase, boosting the ratio

Ans :

(A) On review, a low ratio was considered desirable as it indicates a shift towards digital payments

The rationale for the rating was modified. Initially, a low ratio of ATM cash withdrawal to CIC was seen as weak due to low ATM availability. However, upon review, it was determined that a low ratio is actually a positive sign. It indicates a reduced dependency on cash withdrawals, which aligns with the strategic focus on shifting towards digital payments.

May/June 2005

64. What is the status of the domestic card network RuPay in the Indian market as of January 2022?

(A) It dominates both the debit and credit card segments with over 65% share in each

(B) It dominates the debit card market with over 65% share but has less than 3% share in the credit card segment

(C) It has less than 3% share in the debit card market but over 65% in the credit card market

(D) It was launched in 2022 and is yet to gain any significant market share in either segment

Ans :

(B) It dominates the debit card market with over 65% share but has less than 3% share in the credit card segment

The report highlights the dual nature of RuPay's market presence. Launched in 2012 by NPCI, RuPay has become the dominant player in the debit card segment, with over 651 million cards issued, capturing more than 65% of the market. In stark contrast, its presence in the credit card

3. Real-time, individual transaction settlement.
4. Batch-based, net settlement of transactions.

Code:

(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

Ans :

(A) P-3, Q-4, R-1, S-2

RTGS is defined by its real-time gross settlement, processing transactions individually. NEFT operates on a deferred net settlement basis, processing transactions in batches. ECS is designed for repetitive bulk payments like salaries or EMIs. AePS is a specific system that uses Aadhaar authentication for basic banking transactions at PoS/Micro ATM terminals through Business Correspondents.

May/June 2024

82. Which of the following statements about the evolution of remittance products is incorrect?

(A) The popularity of Demand Drafts and Banker's Cheques has increased due to their security features
(B) Technology has led to newer, speedier, and more innovative remittance products
(C) The overall thrust of RBI initiatives has been to reduce the use of paper for transactions
(D) Retail electronic and card-based payments have seen a quantum jump with the introduction of NEFT and RTGS

Ans :

(A) The popularity of Demand Drafts and Banker's Cheques has increased due to their security features

The text clearly states that due to the increasing popularity of electronic payment systems, which offer convenience and minimal charges, traditional instruments like Banker's Cheques and Demand Drafts have lost their popularity and are no longer the preferred means of remittance for customers. The other statements accurately reflect the shift towards electronic remittance methods.

Oct/Nov 2008

83. Identify the correct pair regarding NEFT transaction charges for outward transactions at originating branches.

(A) Up to ₹10,000 : Not exceeding ₹5.00
(B) Above ₹10,000 up to ₹1 lakh : Not exceeding ₹10.00
(C) Above ₹1 lakh up to ₹2 lakh : Not exceeding ₹15.00
(D) Above ₹2 lakh : Not exceeding ₹20.00

Ans :

(C) Above ₹1 lakh up to ₹2 lakh : Not exceeding ₹15.00

The structure of charges for outward NEFT transactions specifies different caps for various slabs. For transactions above ₹1 lakh and up to ₹2 lakh, the maximum permissible charge that a bank can levy on the remitter is ₹15, plus applicable GST. The other options list incorrect charge limits for their respective transaction slabs.

NODIA

May/June 2006

84. Which of the following is a key advantage of NEFT for the beneficiary?

(A) The ability to track the transaction in real-time using a UTR number
(B) The ability to initiate the remittance from home using internet banking
(C) The remittance is generally very cost-effective for the person sending the funds
(D) They need not be apprehensive of loss or theft of physical instruments

Ans :

(D) They need not be apprehensive of loss or theft of physical instruments

While other options are advantages of the NEFT system in general, the most direct and significant advantage for the beneficiary is the elimination of physical instruments like cheques or demand drafts. This removes the risk of the instrument being lost in transit, stolen, or subjected to fraudulent encashment, providing a much higher level of security for the recipient.

Oct/Nov 2017

85. A corporate client needs to make a payment of ₹1,90,000 to a vendor. The client insists on using RTGS for immediate settlement. What should the relationship manager advise the client?

(A) Proceed with the RTGS transaction, as the minimum threshold does not apply to corporate clients
(B) Advise the client that RTGS is a system exclusively reserved for inter-bank transactions

(C) Advise using NEFT as the amount is below the ₹2 lakh minimum threshold for RTGS
(D) Suggest splitting the payment into two separate RTGS transactions to bypass the rules

Ans :

(C) Advise using NEFT as the amount is below the ₹2 lakh minimum threshold for RTGS
The RTGS system is designed for high-value payments and has a strict minimum transaction limit of ₹2 lakh for customer transactions. Since the intended payment of ₹1,90,000 is below this threshold, it is not eligible for RTGS. The correct advice would be to use an alternative like NEFT, which has no minimum transaction value and also offers quick settlement.

May/June 2008

86. Consider the following statements regarding ECS Debit.
1. It is used by an institution for raising debits from a large number of accounts.
2. The customer cannot stipulate a ceiling on the amount of debit.
3. Dishonour of an ECS Debit instruction is not a punishable offense.

Which of the statements is/are correct?
(A) 1 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2 and 3

Ans :

(A) 1 only
Statement 1 is correct; ECS Debit is used for bulk collections. Statement 2 is incorrect; the text explicitly states that a customer can choose to stipulate a ceiling on the debit amount. Statement 3 is also incorrect; dishonour of an electronic transfer is punishable under Section 25 of the PSS Act, 2007, with penalties similar to cheque dishonour.

Oct/Nov 2013

87. A destination bank receives a NACH mandate for an amount above ₹3 lakh. The bank validates and authorizes it on the 5th day. According to the NPCI's penalty/incentive structure, what is the outcome for the bank?
(A) The bank has to pay a penalty of ₹10 per mandate
(B) There is no penalty and no incentive
(C) The bank receives an incentive of ₹10 per mandate
(D) The bank receives an incentive of ₹5 per mandate

Ans :

(D) The bank receives an incentive of ₹5 per mandate
For NACH mandates with a value above ₹3 lakh, NPCI provides an incentive for quick processing. If the mandate is processed within 0 to 10 days, the bank is eligible for an incentive of ₹5 per mandate. Since the bank processed it in 5 days, it falls within this incentive period and would receive the specified incentive.

May/June 2015

88. Which of the following statements about the Aadhaar Enabled Payment System (AePS) is incorrect?
(A) It is primarily used for high-value transactions above ₹2 lakh
(B) It is a bank-led model allowing interoperable financial transactions
(C) It requires a KYC compliant bank account linked with Aadhaar
(D) Transactions can be performed at a Micro ATM through a Business Correspondent

Ans :

(A) It is primarily used for high-value transactions above ₹2 lakh
AePS is designed to promote financial inclusion by enabling basic banking transactions for individuals at their doorstep through a Business Correspondent. It is intended for low-value transactions like cash withdrawal, deposit, and balance enquiry. It is not a platform for high-value transactions, which are handled by systems like RTGS.

Oct/Nov 2012

89. "NACH is much faster with same day presentation, settlement and returns processing, compared to the ECS system, where the entire process spreads over 3-4 days. NACH has a well-defined Dispute Management System, to raise and solves issues, which was absent in the case of ECS. NACH also has a robust Mandate Management System, with standardised mandate format and verification workflow."
Based on this text, which feature is NOT mentioned as a superiority of NACH over ECS?

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(A) Faster processing speed
(B) Presence of a Dispute Management System
(C) Lower transaction costs for the customer
(D) A robust Mandate Management System

Ans :

(C) Lower transaction costs for the customer
The provided text highlights several advantages of NACH compared to ECS, including its superior speed (same-day processing vs. 3-4 days for ECS), the inclusion of a Dispute Management System, and a robust Mandate Management System. However, the excerpt does not make any comparison or statement regarding the transaction costs for the end customer being lower in NACH.

May/June 2011

90. The Payments Infrastructure Development Fund (PIDF) Scheme was operationalized in 2021. What was its primary objective?
(A) To enhance the payment acceptance infrastructure and bridge the infrastructure gap
(B) To fund the development of the next-generation RTGS 2.0 system
(C) To provide direct cash subsidies for customers who use digital payments
(D) To create a new fast payment system to compete directly with UPI

Ans :

(A) To enhance the payment acceptance infrastructure and bridge the infrastructure gap
The benchmarking exercise highlighted that there was scope for improvement in payment acceptance infrastructure, such as ATMs and PoS terminals. The Payments Infrastructure Development Fund (PIDF) Scheme was specifically created and operationalized in 2021 to address this issue by promoting and funding the enhancement of the acceptance infrastructure, especially in underserved areas.

Oct/Nov 2020

91. Consider the following statements regarding the benchmarking of India's payment systems.
1. India's rating for 'Laws in place and scope of regulation' is 'Strong'.
2. India's rating for 'Regulation of costs of payment systems' is 'Leader'.
3. The Merchant Discount Rate (MDR) was made mandatory for all UPI and RuPay debit card transactions from Jan 1, 2020.

Which statements are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2, and 3

Ans :

(A) 1 and 2 only
Statements 1 and 2 are correct as per the benchmarking table; India has a strong regulatory framework and is a leader in cost regulation. Statement 3 is incorrect. The government directed that the Merchant Discount Rate (MDR) shall not be collected for transactions put through UPI and RuPay debit cards, effectively making them zero-MDR modes.

May/June 2022

92. Which of the following is NOT a measure mentioned in the report that the regulator introduced to ensure the safety of customer transactions?
(A) Facility to switch on / switch off card transactions
(B) Mandatory two-factor authentication for all cash withdrawals at ATMs
(C) Card-on-File (CoF) tokenisation
(D) Mandating a Legal Entity Identifier (LEI) for high-value transactions in CPS

Ans :

(B) Mandatory two-factor authentication for all cash withdrawals at ATMs
The report lists several measures under customer protection (Indicator 34), including the switch on/off facility for cards, CoF tokenisation, and mandating LEI for high-value transactions. While security is paramount, the report does not mention mandatory two-factor authentication for all ATM cash withdrawals as one of these specific measures introduced since the last exercise.

Oct/Nov 2023

93. What is the settlement finality provision for transactions under the NEFT and NACH systems?
(A) Settlement is provisional and can be revoked by the bank within 24 hours
(B) Settlement is final only after digital confirmation from both the remitter and the beneficiary
(C) Settlement is final and irrevocable in terms of Section 23 of the Payment and Settlement

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Systems Act, 2007
(D) Settlement is considered final but can be reversed by a court order within 30 days

Ans :

(C) Settlement is final and irrevocable in terms of Section 23 of the Payment and Settlement Systems Act, 2007
For both NEFT and NACH, the settlement arrived at through multilateral netting is legally binding. The text explicitly refers to Section 23 of the Payment and Settlement Systems Act, 2007, stating that the settlement, once determined as per the prescribed procedures, shall be final and irrevocable, providing legal certainty to the transactions.

May/June 2016

94. What is the chronological order of implementation for the following systems?
1. NACH takes the place of ECS.
2. RTGS becomes available 24x7.
3. NEFT becomes available 24x7.
4. BBPS is introduced.

(A) 4, 1, 3, 2
(B) 1, 3, 4, 2
(C) 3, 4, 1, 2
(D) 1, 4, 3, 2

Ans :

(D) 1, 4, 3, 2
Based on the dates provided in the text: NACH replaced ECS on May 1, 2016 (1). BBPS was introduced in October 2017 (4). NEFT became available 24x7 from December 16, 2019 (3). RTGS became available 24x7 from December 14, 2020 (2). Therefore, the correct chronological order is 1, 4, 3, 2.

Oct/Nov 2009

95. "In 2021, India brought all bank branches under the image-based Cheque Truncation System (CTS) clearing mechanism ensuring T+1 settlement for all instruments across the country. Further, to provide additional security, a mechanism of positive pay was made available for all high value cheques, i.e., above ₹50,000."
What rating did India receive for the 'Cheque instrument features' indicator?
(A) Leader
(B) Weak
(C) Moderate
(D) Strong

Ans :

(A) Leader
The benchmarking summary table for indicator 9, "Cheque instrument features," shows that India's rating was 'Leader' in the previous exercise and remained 'Leader' in the current one. The implementation of nationwide CTS for T+1 settlement and the introduction of the Positive Pay system for high-value cheques are the key advanced features that justify this top rating.

May/June 2023

96. Which of the following statements about the parties involved in an ECS transaction is correct?
(A) The ECS User's bank is known as the destination bank
(B) The ECS User initiates payments through their bank, which is known as the sponsor bank
(C) The beneficiary account holders' bank is known as the sponsor bank
(D) The ECS Centre, which processes the data, is also known as the user institution

Ans :

(B) The ECS User initiates payments through their bank, which is known as the sponsor bank
In the ECS ecosystem, the terminology is specific. The institution making or receiving bulk payments (e.g., a company paying salaries) is the 'ECS User'. The User's bank, through which it submits the transaction files, is called the 'sponsor bank'. The bank of the end-customer (e.g., the employee) is the 'destination bank'.

Oct/Nov 2018

97. In the context of NACH, the settlement of value-dated credits like ECS credit migrated to NACH is handled on what basis?
(A) T+0 basis
(B) T+1 basis
(C) G+2 basis
(D) Real-time basis

Ans :

(B) T+1 basis
The text specifies that products running on a warehousing basis for value-dated credits, such as ECS credit and debit that were migrated to NACH, are handled on a T+1 Credit/Debit basis. This means the inward file is made available

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to member banks on the previous evening, and NPCI processes the settlement on the next working day ('T+1').

May/June 2007

98. In the NEFT process flow, what is the function of a 'pooling centre' or 'NEFT Service Centre'?

(A) It acts as an aggregator, forwarding messages from branches to the NEFT Clearing Centre

(B) It is the final branch where the beneficiary customer holds an account

(C) It is a centralized RBI location that settles all national transactions in real-time

(D) It is a customer service helpline for tracking the status of NEFT transactions

Ans :

(A) It acts as an aggregator, forwarding messages from branches to the NEFT Clearing Centre

The pooling centre, also called the NEFT Service Centre, serves as an intermediary hub. It collects the payment messages prepared by the individual originating bank branches and consolidates them. It then forwards these messages in a structured format to the central NEFT Clearing Centre in Mumbai for inclusion in the next available processing batch.

Oct/Nov 2025

99. Which of the following is NOT a valid channel for initiating a Bharat Bill Pay transaction?

(A) Internet Banking

(B) Mobile Wallets

(C) Physical submission of a cheque at a government office

(D) Kiosk or ATM

Ans :

(C) Physical submission of a cheque at a government office

BBPS is an electronic payment ecosystem. Transactions can be initiated through a multitude of digital and assisted-digital channels, including Internet, Internet Banking, Mobile, Mobile-Banking, PoS terminals, Mobile Wallets, Kiosks, ATMs, Bank Branches, and Business Correspondents. Physical cheque submission at a government office is a traditional method that BBPS aims to digitize and does not fall under its channels.

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May/June 2012

100. As per the RBI's directive, from July 1, 2019, what change was implemented regarding the processing charges levied by RBI on banks for outward NEFT and RTGS transactions?

(A) The charges were increased by 10% to cover rising infrastructure costs

(B) The charges were made applicable only to private sector and foreign banks

(C) The charges were reduced by 50% across all time-varying slabs

(D) The charges were completely waived to promote digital transactions

Ans :

(D) The charges were completely waived to promote digital transactions

In a significant move to provide an impetus to digital funds movement and reduce the cost of transactions, the Reserve Bank of India made a key policy change. Effective from July 1, 2019, the RBI decided to waive all processing charges and time-varying charges that it used to levy on banks for outward transactions processed through NEFT and RTGS.

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(B) To fulfill mandatory regulatory reporting requirements.
(C) To be published in the bank's annual financial statements.
(D) To set the interest rates for individual loan products.

Ans :

(A) To enable a comprehensive understanding of the customer.
The generation of critical metrics such as customer attrition scores or profitability scores is a core function of a customer analytics solution. The primary purpose of these scores is to provide the bank with a comprehensive, data-driven understanding of each customer, which facilitates more timely and effective decision-making regarding service, retention, and profitability.

Oct/Nov 2021

27. Which of the following is NOT listed as a key module of a customer analytics solution?
(A) Campaign Management
(B) Cross-sell and Product Holding Analysis
(C) Customer Profitability and Lifetime Value Analysis
(D) Core Banking Software Development

Ans :

(D) Core Banking Software Development
Customer analytics solutions consist of several key modules designed to analyze customer data. These include Campaign Management, Cross-sell and Product Holding Analysis, Customer Profitability and Lifetime Value Analysis, Attrition and Loyalty Analysis, Transaction Behaviour Analysis, and Service Request Analysis. Core Banking Software Development is a separate, much broader technological function.

May/June 2016

28. How does a customer analytics solution contribute to 'Enhanced Customer Value'?
(A) By reducing the number of products offered to simplify choices.
(B) By facilitating effective cross-sell, up-sell, and targeted loyalty programs.
(C) By mandating minimal investment in new technology infrastructure.
(D) By automating the generation of monthly account statements.

Ans :

(B) By facilitating effective cross-sell, up-sell, and targeted loyalty programs.
A key business benefit of customer analytics is enhancing customer value. The solution achieves this by providing analytical insights that enable the bank to conduct more effective cross-selling and up-selling, improve customer stickiness, implement targeted loyalty programs, and profitably reposition its offerings, all of which contribute to increased relationship revenue.

Oct/Nov 2008

29. What feature of a customer analytics solution leads to a 'Reduced Time to Market' for analytical outputs?
(A) The use of technology-agnostic deployment on existing tools.
(B) The provision of a robust framework for customer acquisition.
(C) The availability of predefined data mapping and automated processes.
(D) The empowerment of business users with intelligence for decision-making.

Ans :

(C) The availability of predefined data mapping and automated processes.
Customer analytics solutions significantly reduce the 'Time to Market' by offering built-in efficiencies. They provide predefined data mapping, extraction programs, and data aggregation capabilities that run through an automated process. Additionally, the inclusion of in-built analytical models and reporting templates further shortens the time required to go-live with new analytical insights.

May/June 2025

30. A bank is able to deploy a new customer analytics solution on its existing reporting and modelling tools with very little customization. This demonstrates which benefit of the solution?
(A) Improved Decision-making Support
(B) Enhanced Customer Value
(C) Robust Framework for Retention
(D) Low Total Cost of Ownership

Ans :

(D) Low Total Cost of Ownership
The ability to deploy a solution on a bank's existing infrastructure and tools with minimal customization effort is a direct contributor to a Low Total Cost of Ownership (TCO). This

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(B) Customer Acquisition, Customer Retention, and Customer Servicing.
(C) Hardware, Software, and Network Infrastructure.
(D) Products, Processes, and Services delivery mechanism.

Ans :

(D) Products, Processes, and Services delivery mechanism.
The impact of technology in the retail banking sector is multifaceted and can be observed across three fundamental levels. These are the development and features of Products, the efficiency and structure of internal Processes, and the innovation and accessibility of the Services delivery mechanism. This comprehensive influence has reshaped the entire banking ecosystem.

Oct/Nov 2010

5. Which emerging technology concept allows banks to offer their customers access to third-party products and services?
(A) Data Analytics and Artificial Intelligence.
(B) Self-learning banking systems.
(C) Open Banking and Embedded Finance.
(D) Cloud-based infrastructure.

Ans :

(C) Open Banking and Embedded Finance.
Open Banking and Embedded Finance are new concepts that represent a significant trend in the digitization of banking. They enable banks to integrate with third-party providers, thereby allowing them to offer a wider range of products and services directly to their own customer base, creating a more interconnected and comprehensive financial ecosystem for the end-user.

May/June 2013

6. A 2003 Boston Consulting Group (BCG) study on transforming retail banking processes highlighted four distinct models for technology integration. What was the primary focus of this study?
(A) Analyzing the potential impact of cloud computing on legacy banking infrastructure.
(B) Identifying approaches to modularizing and standardizing retail banking processes.
(C) Evaluating the strategic use of artificial intelligence in automating customer service.
(D) Documenting the technological evolution of ATM networks and national payment switches.

Ans :

(B) Identifying approaches to modularizing and standardizing retail banking processes.
The Boston Consulting Group study titled "Opportunities for Action in Financial Services - Transforming Retail Banking Processes" focused on how retail banks were using different approaches for technology integration. The study's key finding was the emergence of four distinct process models that banks adopted to modularise and standardise their operational processes for greater efficiency.

Oct/Nov 2025

7. In the context of retail banking process models, which model is characterized by an individual process platform supporting only one product, with no data sharing between products?
(A) Vertically Organised Model.
(B) Predominantly Vertically Organised Model.
(C) Hybrid Integrated Model.
(D) Horizontally Organised Model.

Ans :

(D) Horizontally Organised Model.
The Horizontally Organised Model is a process model where each product is supported by its own individual process platform. A defining characteristic of this model is its siloed nature, where the sub-data associated with one product and its platform are not shared with other products or product platforms within the bank.

May/June 2005

8. Which technology integration model in retail banking features centralized customer information that is used to build common origination and servicing processes across all retail products?
(A) Vertically Organised Model.
(B) Horizontally Organised Model.
(C) Predominantly Horizontally Organised Model.
(D) Modular Product-Oriented Model.

Ans :

(A) Vertically Organised Model.
The Vertically Organised Model is defined by its centralized approach to customer information, providing functionality across all products.

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model from the start.
(D) They exclusively used the outsourcing route due to their large size.

Ans :

(B) They took pains to develop their proprietary model and in-house software.
The first PSBs to embrace technology, referred to as 'early birds', undertook the challenging task of internal development. They developed their own proprietary models and created in-house software for phased implementation in branches. This approach contrasted with late entrants who often opted for external vendors for quicker deployment and better channel delivery efficiency.

May/June 2018

18. In the context of technology adoption, what route did most old generation private banks take, primarily due to their small size and late entry?
(A) Taking the outsourcing route to leverage the latest technology.
(B) Developing complex proprietary models in-house.
(C) Following a blended model of in-house and outsourced solutions.
(D) Migrating to a unified technology delivery model from PSBs.

Ans :

(A) Taking the outsourcing route to leverage the latest technology.
Due to their relatively small size and being very late entrants into the technology adoption landscape, most old generation private banks chose the outsourcing route. This strategy allowed them to bypass the complexities of in-house development and take immediate advantage of the latest technology scenarios and solutions offered by external software vendors.

Oct/Nov 2007

19. Which of the following is NOT listed as a type of information that retail banking software is mainly developed to capture?
(A) Static Information like account opening data.
(B) Updated Information like income details.
(C) Competitor Information like rival bank interest rates.
(D) Transaction Information from disbursement to final settlement.

Ans :

(C) Competitor Information like rival bank interest rates.
Retail banking software is primarily designed to capture customer-centric information. This includes static data (account opening), updated data (income details), transaction data (loan operations), and analytics/alerts. While competitor information is vital for strategy, it is not a core type of information that the primary retail banking transaction software is developed to capture directly from customer interactions.

May/June 2022

20. For effective retail banking, various supporting software applications need to be seamlessly integrated with the Core Banking Solution. Which of the following is an example of such a supporting application?
(A) Employee Payroll System.
(B) Office Productivity Suite.
(C) Building Security Management System.
(D) Loan Origination System.

Ans :

(D) Loan Origination System.
To create a comprehensive and efficient retail banking technology ecosystem, several specialized software applications must be integrated with the main Core Banking Solution. Examples of these supporting applications include the AML (Anti-Money Laundering) software, Credit Card Processing System, Data Warehouse, and the Loan Origination System, which manages the entire loan application process.

Oct/Nov 2023

21. What capability does an alerts solution provide to a bank's customers?
(A) To provide an option for automatically blocking transactions from suspicious merchants.
(B) To enable the ability to reply to alerts in order to initiate new banking transactions.
(C) To customize alert content and choose the preferred time and channel for receipt.
(D) To allow for receiving alerts only for corporate banking activities and not retail accounts.

Ans :

(C) To customize alert content and choose the preferred time and channel for receipt.

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Oct/Nov 2013

13. Based on the diagram 'Fig. 12.1 Technology Initiatives in Retail Banking', which type of bank is associated with the 'Proprietary Model'?
(A) Foreign Banks
(B) New Gen Private Banks
(C) Public Sector Banks
(D) Old Gen Private Banks

Ans :

(C) Public Sector Banks
The provided diagram explicitly links different types of banks to specific technology implementation models. The flowchart shows that Public Sector Banks are associated with the 'Proprietary Model', which is further described as 'Models Developed in House by Banks'. This indicates a strategy of internal development rather than outsourcing or blending external solutions for their technology initiatives.

May/June 2011

14. According to the technology implementation models discussed, which model is characterized by a combination of in-house development and outsourced components?
(A) Outsourced Model
(B) Proprietary Model
(C) Legacy Model
(D) Blended Model

Ans :

(D) Blended Model
The Blended Model for technology implementation is defined as a hybrid approach that combines both internal and external resources. It involves a 'Blend of in House and Outsourced' elements, allowing a bank to leverage its internal development capabilities while also sourcing specific software or services from external vendors to meet its technological requirements effectively.

Oct/Nov 2020

15. Match the type of bank (List-I) with its corresponding technology implementation model (List-II) as depicted in the chapter.
List-I (Bank Type)
P. Foreign Banks
Q. New Gen Private Banks
R. Public Sector Banks
List-II (Technology Model)
1. Proprietary Model
2. Outsourced Model
3. Blended Model
(A) P-2, Q-3, R-1
(B) P-1, Q-2, R-3
(C) P-3, Q-1, R-2
(D) P-2, Q-1, R-3

Ans :

(A) P-2, Q-3, R-1
As per the diagram and accompanying text on technology initiatives, Foreign Banks typically follow an Outsourced Model. New Generation Private Banks and Old Generation Private Banks are shown to use a Blended Model. Public Sector Banks are associated with the Proprietary Model, where software is developed in-house. Therefore, the correct matching is P-2, Q-3, and R-1.

May/June 2009

16. Why did new generation private sector banks have a great advantage as late entrants in technology implementation?
(A) They could develop proprietary models from scratch without legacy constraints.
(B) They could start with modern technology and source it from external vendors.
(C) They inherited advanced systems from the PSBs they replaced.
(D) They focused on a 'bits and pieces' approach for maximum flexibility.

Ans :

(B) They could start with modern technology and source it from external vendors.
New generation private sector banks, being late entrants, had the significant advantage of not being burdened by legacy systems. This allowed them to bypass the evolutionary stages faced by older banks and directly adopt the latest available technology. They could source complete, modern solutions from external vendors, enabling a quicker and more efficient technology implementation.

Oct/Nov 2015

17. What approach did the 'early birds' among Public Sector Banks (PSBs) initially take for technology implementation?
(A) They immediately sourced end-to-end solutions from external vendors.
(B) They took pains to develop their proprietary model and in-house software.
(C) They adopted a unified technology delivery

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CHAPTER 12

Digitisation of Retail Banking Products

Oct/Nov 2022

1. According to the principles of technology in retail banking, what is a primary challenge for IT departments in managing retail banking networks?

(A) Prioritizing only high-revenue products for online availability to manage server performance.

(B) Ensuring continuous availability of all products and services across the organization.

(C) Restricting network services to business hours to reduce ongoing maintenance costs.

(D) Focusing solely on data centre efficiency and outsourcing branch application management.

Ans :

(B) Ensuring continuous availability of all products and services across the organization.

A key challenge for IT departments is managing, maintaining, and optimizing retail banking networks to ensure that all products and services are consistently available across the entire organization. This continuous availability is essential for generating revenue, remaining competitive, and supporting the bank's business objectives by ensuring applications run efficiently between branches and data centres.

May/June 2008

2. What was the initial stage of technology implementation in Public Sector Banks (PSBs) during the early days of computerisation in the 1980s?

(A) Use of standalone Automated Ledger Posting Machines (ALPMs).

(B) Implementation of Core Banking Solutions (CBS) on a single platform.

(C) Adoption of a single server environment for all branches.

(D) Development of regional networked hubs for centralized processing.

Ans :

(A) Use of standalone Automated Ledger Posting Machines (ALPMs).

The technological journey in Public Sector Banks began with basic computerisation in the 1980s. The initial phase involved the use of standalone Automated Ledger Posting Machines (ALPMs). This later evolved into more sophisticated systems like Total Branch Automation and regional networked hubs, eventually leading to the implementation of comprehensive core banking solutions across the network.

Oct/Nov 2014

3. New generation private sector banks gained a significant technological advantage over other banks primarily due to which factor?

(A) Starting with a proprietary, in-house developed software model.

(B) Adopting the Automated Ledger Posting Machine (ALPM) system.

(C) Starting with the advantage of a single server environment.

(D) Re-engineering legacy systems from older private banks.

Ans :

(C) Starting with the advantage of a single server environment.

New generation private sector banks had a distinct technological edge because they started their operations with a modern, single server environment. This gave them an immediate advantage over other banks, particularly PSBs, which had to gradually evolve from older technologies like ALPMs and undertake complex re-engineering initiatives to implement core banking solutions and network their customers.

May/June 2021

4. Technology in retail banking has left its imprint on three distinct levels. Which of the following correctly identifies these three levels?

(A) Marketing, Human Resources, and Compliance.

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A key user-friendly feature of a modern alerts solution is its subscription capability. This empowers customers to personalize their experience by selecting the specific information or events they wish to be alerted about. Furthermore, it allows them to choose their preferred time and channel (e.g., SMS, email) for receiving these notifications from the bank.

May/June 2006

22. The alerts solution described in the chapter is built on which new-generation industry standard technologies?
(A) COBOL and Fortran
(B) J2EE and .NET
(C) HTML and CSS
(D) Python and Ruby

Ans :

(B) J2EE and .NET
The alerts solution is built upon modern, robust, industry-standard technologies to ensure scalability and compatibility. The text explicitly mentions that the solution is built on new-generation technologies like J2EE (Java 2 Platform, Enterprise Edition) and .NET. These platforms provide the framework for creating multi-channel and multilingual support for the alerting service.

Oct/Nov 2012

23. What feature in an alerts solution helps in minimizing the traffic of outgoing notifications by combining multiple alerts?
(A) Subscription feature
(B) Branding message
(C) Multilingual support
(D) Message digest

Ans :

(D) Message digest
To manage the volume of notifications and avoid overwhelming the customer, the alerts solution includes a feature that allows a group of individual alerts to be combined into a single 'message digest'. This consolidation minimizes the traffic of outgoing notifications, providing a more streamlined and less intrusive communication experience for both the customer and the bank's systems.

May/June 2010

24. An effective CRM system automates the process of sending alerts to customers. In addition to alerting customers, who else does the system alert for internal use?
(A) The bank employees.
(B) The bank's auditors.
(C) The regulatory authorities.
(D) The software vendor's support team.

Ans :

(A) The bank employees.
An effective CRM system serves a dual purpose in its alerting function. While it automatically sends alerts to customers to keep them informed about their transactions and account activities, it also simultaneously alerts relevant bank employees. This internal notification is crucial for operational awareness, follow-up actions, and maintaining updated internal records.

Oct/Nov 2005

25. What does a customer analytics solution provide to banks to strengthen their customer engagement and management strategy?
(A) A set of standard, pre-formatted business reports generated on a monthly basis.
(B) A direct-to-customer interface allowing them to analyze their own spending patterns.
(C) A combination of insightful business reports and rigorous statistical models.
(D) A detailed list of key competitor products that need to be strategically countered.

Ans :

(C) A combination of insightful business reports and rigorous statistical models.
A customer analytics solution offers a holistic approach by providing banks with both insightful business reports and the power of rigorous statistical models. This combination enables the business to cross-leverage the analytical output, leading to a deeper understanding of customers and strengthening the bank's overall strategy for engagement and management.

May/June 2014

26. A customer analytics solution can provide critical information like customer attrition scores and profitability scores. What is the primary purpose of these scores?
(A) To enable a comprehensive understanding of the customer.

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In this model, the centralized customer data serves as the foundation for creating common origination and servicing processes that are applied consistently across the bank's entire portfolio of retail banking products, ensuring a unified customer experience.

Oct/Nov 2019

9. Consider the following statements regarding technology process models in retail banking:
Statement 1: The Predominantly Vertically Organised Model is a hybrid model offering common information for most related services.
Statement 2: The Predominantly Horizontally Organised Model has no customer data integration available for other products.
Which of the statements is/are correct?
(A) Only Statement 1 is correct.
(B) Only Statement 2 is correct.
(C) Both Statement 1 and Statement 2 are correct.
(D) Neither Statement 1 nor Statement 2 is correct.

Ans :

(A) Only Statement 1 is correct.
Statement 1 is correct as the Predominantly Vertically Organised Model is a hybrid that provides common information across various related services. Statement 2 is incorrect because the Predominantly Horizontally Organised Model allows for customer data integration to a certain extent for other products, even though it is primarily product-oriented with some modularization.

May/June 2017

10. According to studies on the transformation of banking processes, what is the potential range of unit cost reduction a bank can achieve by effectively transforming its processes?
(A) 20% to 40%
(B) 5% to 10%
(C) 10% to 15%
(D) 15% to 25%

Ans :

(A) 20% to 40%
Research and studies have indicated that the effective transformation of banking processes through technology integration can lead to significant financial benefits. A bank that successfully undertakes this transformation can reduce its unit costs by a substantial margin, typically falling within the range of 20% to 40%, which can completely alter its competitive standing.

Oct/Nov 2006

11. The service profit chain model of business performance, which is relevant to the retail banking sector, was developed by whom?
(A) Garry A. Galade et al. (2005)
(B) Boston Consulting Group (2003)
(C) Kotler
(D) Haskett, Sasser & Schesinger (1997)

Ans :

(D) Haskett, Sasser & Schesinger (1997)
The service profit chain model, which identifies customer satisfaction as a critical intervening variable linking organizational climate, employee attitudes, and sales performance, was developed by Haskett, Sasser & Schesinger in 1997. This model is highly relevant in the retail banking sector for understanding the dynamics between employee satisfaction and customer loyalty, leading to profitability.

May/June 2024

12. In general, Public Sector Banks (PSBs) tend to be organized more in which process model, which can be a hindrance to effective retail business if product integration is not fully materialized?
(A) More vertically organized with complete product integration.
(B) More horizontally organized with varying levels of vertical position.
(C) Exclusively in a blended model with outsourced components.
(D) Predominantly in a new generation single-server model.

Ans :

(B) More horizontally organized with varying levels of vertical position.
Generally, Public Sector Banks are more horizontally organized in their process model structure, although there are various levels of vertical integration across different banks. This horizontal orientation can pose a challenge to effective retail business, especially when customer databases and product integration are not fully achieved, limiting cross-selling and a unified customer view.

NODIA

technology-agnostic nature means the bank does not need to make significant new investments in infrastructure or resources, making the solution more cost-effective to implement and maintain.

Oct/Nov 2017

31. The Reserve Bank of India constituted a committee on "Technology Upgradation in the Payments System" in 1994. Who was the chairman of this committee?
(A) Shri W. S. Saraf
(B) Dr. C. Rangarajan
(C) The Governor of RBI
(D) The Director of IDRBT

Ans :

(A) Shri W. S. Saraf
In 1994, the Reserve Bank of India formed a crucial committee to address technology upgradation in the country's payment systems. This committee was established under the Chairmanship of Shri W. S. Saraf, who was the then Executive Director of the RBI. The committee's recommendations were pivotal in shaping India's banking technology landscape.

May/June 2019

32. Based on the Saraf Committee's recommendation, the Institute for Development and Research on Banking Technology (IDRBT) was established and started functioning from which date?
(A) December 1994
(B) March 06, 1996
(C) January 2010
(D) April 01, 2016

Ans :

(B) March 06, 1996
Following the recommendation of the Saraf Committee to create an apex-level institute for research in banking technology, the Reserve Bank of India established the IDRBT. The institute was tasked with spearheading technology absorption in the banking sector and officially began its operations on March 06, 1996, marking a significant milestone in Indian banking.

Oct/Nov 2011

33. Which of the following technology services was conceptualized, designed, and launched by IDRBT for the Indian banking and financial sector?
(A) Unified Payments Interface (UPI)
(B) National Financial Switch (NFS)
(C) Real Time Gross Settlement (RTGS)
(D) Core Banking Solution (CBS)

Ans :

(B) National Financial Switch (NFS)
Over the years, IDRBT was responsible for creating and launching several foundational technology services that formed the backbone of IT implementation in Indian banking. Among these key services were the Indian Financial Network (INFINET), Structured Financial Messaging System (SFMS), Indian Banking Community Cloud (IBCC), and the National Financial Switch (NFS).

May/June 2023

34. In January 2010, IDRBT handed over a critical service to the National Payments Corporation of India (NPCI) to provide more focused attention to it. Which service was this?
(A) National Financial Switch (NFS)
(B) Indian Financial Network (INFINET)
(C) Structured Financial Messaging System (SFMS)
(D) Indian Banking Community Cloud (IBCC)

Ans :

(A) National Financial Switch (NFS)
Recognizing the critical importance of the National Financial Switch (NFS) for the development of techno-banking in the country, a decision was made to transfer its management for more focused attention. Accordingly, in January 2010, the IDRBT handed over the responsibility for the NFS to the newly formed National Payments Corporation of India (NPCI).

Oct/Nov 2016

35. Assertion (A): The External Expert Review Committee (EERC) headed by Dr. C. Rangarajan recommended that IDRBT should hive off its service-providing functions.
Reason (R): The EERC believed that IDRBT should function as a primary institute of excellence focused on research and development in banking technology.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

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bank's technology investments, contributing to a Lower Total Cost of Ownership (TCO)?

(A) They are built using proprietary, closed-source code.

(B) They are future-proof and have a flexible, scalable architecture.

(C) They require a complete overhaul of existing enterprise applications.

(D) They can only be deployed on specialized, dedicated hardware.

Ans :

(B) They are future-proof and have a flexible, scalable architecture.

A key factor contributing to a Lower Total Cost of Ownership (TCO) for modern wealth management solutions is their design. They are built on new-generation technologies, making them future-proof. Their proven scalability and flexible architecture allow for seamless integration with other applications, thus protecting the bank's existing and future technology investments against rapid obsolescence.

Oct/Nov 2012

65. A bank's wealth management division wants to introduce a new 'range accrual deposit' product. Using a modern, user-friendly wealth management solution, how can the business users at the bank achieve this?

(A) By submitting a formal change request to the IT department for source code modification.

(B) By configuring new features and functionality without changing the source code.

(C) By requiring the purchase and integration of a completely new, separate software module.

(D) By resorting to manually processing all transactions for the new product outside the system.

Ans :

(B) By configuring new features and functionality without changing the source code.

A significant benefit of modern, user-friendly wealth management solutions is the 'Ease of Enhancing Product Portfolio'. These systems are designed to enable business users at the bank to tailor solutions and add innovative functionalities for new product flavours, such as a range accrual deposit, without needing to change the application's source code, allowing for faster rollout.

May/June 2010

66. Digital Lending involves a process where credit sourcing, assessment, and disbursement happen on a digital platform. What technologies are mentioned as supporting the growth of this area?

(A) Cloud computing, artificial intelligence, and blockchain.

(B) Mainframe computing and legacy systems.

(C) Manual ledger posting and paper-based applications.

(D) Dial-up modems and standalone personal computers.

Ans :

(A) Cloud computing, artificial intelligence, and blockchain.

The rapid advancement in digital lending has been fueled by modern technologies. The text specifically credits the growth of Fintech start-ups and the revolution in the lending space to advancements brought in by cloud computing, artificial intelligence (AI), and blockchain. These technologies enable a seamless and rapid digital lending process from sourcing to disbursement.

Oct/Nov 2005

67. The RBI firmed up a new regulatory framework for digital lending in its notification dated August 10, 2022. What is the core principle on which this framework is based?

(A) Lending business can be carried out by any entity with a mobile application.

(B) All digital lenders must be registered as Non-Banking Financial Companies (NBFCs).

(C) Lending business can only be carried out by entities regulated by RBI or permitted by other laws.

(D) Digital lending is only permitted for amounts less than ₹50,000.

Ans :

(C) Lending business can only be carried out by entities regulated by RBI or permitted by other laws.

The regulatory framework for digital lending is founded on a crucial principle to ensure legitimacy and consumer protection. This principle states that the business of lending can only be undertaken by entities that are either regulated by the Reserve Bank of India or are explicitly permitted to do so under any other applicable law.

NODIA

May/June 2020

40. The transfer of funds under NEFT and RTGS is facilitated through which communication backbone?
(A) INFINET
(B) SWIFT
(C) SFMS
(D) IBCC

Ans :

(A) INFINET
The Indian Financial Network (INFINET) serves as the underlying communication backbone for a wide range of critical banking applications in India. The text explicitly states that the transfer of funds under both the National Electronic Funds Transfer (NEFT) and the Real Time Gross Settlement (RTGS) systems is being done through the INFINET network.

Oct/Nov 2024

41. The Structured Financial Messaging System (SFMS) is an Indian standard that is similar to which international messaging system?
(A) CHIPS
(B) FEDWIRE
(C) SWIFT
(D) SEPA

Ans :

(C) SWIFT
The Structured Financial Messaging System (SFMS) was developed as a domestic, secure messaging standard for the Indian financial sector. It is explicitly described as being an Indian standard that is similar in function and purpose to the Society for Worldwide Interbank Financial Telecommunication (SWIFT), which is the predominant international messaging system used for financial messaging globally.

May/June 2015

42. What is a major advantage of SFMS regarding its usability across bank branches?
(A) It can be used practically for all communication purposes, irrespective of a branch's computerization level.
(B) Its use is restricted to fully computerized, metropolitan branches only.
(C) It can only be used for intra-bank communication, not for inter-bank messages.
(D) It requires all branches to have high-speed Leased Line connectivity.

Ans :

(A) It can be used practically for all communication purposes, irrespective of a branch's computerization level.
A significant advantage of SFMS is its flexibility and wide applicability. Its usage is not restricted to only fully computerized branches or offices. It can be practically used for all secure communication purposes within a bank and between banks, regardless of whether a branch is fully computerized, partially computerized, or even non-computerized.

Oct/Nov 2022

43. Which of the following applications is the inter-bank messaging part of SFMS used for?
(A) Customer account balance inquiries.
(B) Internal employee communications.
(C) Opening new customer accounts.
(D) Real Time Gross Settlements System (RTGS).

Ans :

(D) Real Time Gross Settlements System (RTGS).
The SFMS has both intra-bank and inter-bank functionalities. The inter-bank messaging component is crucial for large-value payment and settlement systems. It is used for applications like Electronic Funds Transfer (EFT), Real Time Gross Settlements System (RTGS), Delivery Versus Payments (DVP), and Centralised Funds Management System (CFMS), facilitating secure communication between different banks.

May/June 2008

44. Which key feature of SFMS is based on 'store and forward' principles governed by push technology?
(A) Template Builder
(B) Secured messaging and routing
(C) Directory services
(D) Smart card based user access

Ans :

(B) Secured messaging and routing
The core mechanism for message transmission in SFMS is designed for reliability and security. The system employs secured messaging and routing that is based on the 'store and forward' principle. This process, governed by push technology, ensures that messages are securely stored and then forwarded to their destination, guaranteeing delivery even with intermittent network connectivity.

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(B) Sending promotional messages for other loan products.
(C) Reporting the loan details to Credit Information Companies (CICs).
(D) Offering a cooling-off period to the borrower.

Ans :

(A) Automatic increase in the credit limit.
The digital lending framework includes specific rules to protect borrowers from unsolicited credit exposure. One such rule is the prohibition of an automatic increase in the credit limit. Any enhancement of the credit limit requires the explicit prior consent of the borrower and cannot be done unilaterally by the lender as a default feature.

Oct/Nov 2017

73. The digital lending framework provides for a "cooling-off/look-up period". What does this period allow the borrower to do?
(A) To request a higher loan amount than originally applied for.
(B) To switch the loan from a fixed interest rate to a floating rate.
(C) To exit the digital loan by paying the principal and proportionate APR without penalty.
(D) To pause EMI payments for the duration of the period.

Ans :

(C) To exit the digital loan by paying the principal and proportionate APR without penalty.
The cooling-off or look-up period is a borrower-friendly provision in the loan contract. It grants the borrower a specific timeframe during which they have the option to exit the digital loan without incurring any penalty. To do so, they must repay the principal amount along with the proportionate Annual Percentage Rate (APR) for that period.

May/June 2019

74. If a complaint lodged by a borrower regarding a digital loan is not resolved by the Regulated Entity (RE) within the stipulated 30 days, what is the next step the borrower can take?
(A) The borrower can lodge a complaint under the Reserve Bank – Integrated Ombudsman Scheme.
(B) The complaint is automatically closed.
(C) The borrower must file a civil suit in court.
(D) The borrower must re-submit the complaint to the RE's nodal grievance officer.

Ans :

(A) The borrower can lodge a complaint under the Reserve Bank – Integrated Ombudsman Scheme.
The framework provides a clear escalation path for grievance redressal. If a Regulated Entity (RE) fails to resolve a borrower's complaint within the stipulated period, which is currently 30 days, the borrower has the right to escalate the matter. They can lodge a complaint with the Reserve Bank – Integrated Ombudsman Scheme for an independent review.

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Oct/Nov 2011

75. Regarding technology and data requirements, what is the primary rule for data collected by Digital Lending Apps (DLAs)?
(A) Data can be collected for any purpose, including marketing for third parties.
(B) Data can be stored indefinitely even after the loan is closed.
(C) Consent for data collection, once given, cannot be revoked by the borrower.
(D) Data collection must be need-based and done only with the borrower's prior explicit consent.

Ans :

(D) Data collection must be need-based and done only with the borrower's prior explicit consent.
The digital lending guidelines place strong emphasis on data privacy and borrower consent. A key requirement is that any data collected by Digital Lending Apps (DLAs) must be strictly need-based for the purpose of lending. Furthermore, this data collection can only be done after obtaining the prior explicit consent of the borrower, with clear audit trails.

May/June 2023

76. A borrower, after taking a digital loan, realizes the lending app has access to their phone's contact list, which they are not comfortable with. According to the RBI framework, what option should be available to the borrower?
(A) The borrower must accept the data access as it was part of the initial terms.
(B) The option to revoke the previously granted consent for accessing specific data.
(C) The borrower can only delete the app, which automatically revokes consent.

May/June 2005

50. A customer of Bank A (card-issuing member) uses an ATM of Bank B (card-acquiring member) to withdraw cash. As per the NFS interchange structure, what fee is payable and by whom?
(A) Bank A pays an interchange fee of ₹17 to Bank B.
(B) Bank B pays an interchange fee of ₹17 to Bank A.
(C) Bank A pays a switching fee of ₹0.45 to Bank B.
(D) The customer pays a direct fee of ₹6 to Bank B.

Ans :

(A) Bank A pays an interchange fee of ₹17 to Bank B.
In an interoperable ATM transaction, the card-issuing member compensates the card-acquiring member for providing the service. For a cash withdrawal, the card-issuing member (Bank A) is required to pay the card-acquiring member (Bank B) an interchange fee, which is currently set at ₹17 for each approved cash withdrawal and card-to-card fund transfer.

Oct/Nov 2019

51. What is the current interchange fee for non-financial transactions, such as a balance enquiry, performed on the NFS network?
(A) ₹17
(B) ₹0.45
(C) ₹6
(D) There is no fee for non-financial transactions.

Ans :

(C) ₹6
The National Financial Switch has a differentiated interchange fee structure for financial and non-financial transactions. While cash withdrawals and card-to-card transfers have a higher fee, other non-financial transactions like balance enquiries, PIN changes, or mini statements attract a lower interchange fee, which is currently set at ₹6 per approved transaction.

May/June 2017

52. NPCI has tied up with international card schemes to allow their cardholders to use ATMs connected to the NFS network. Which of the following is NOT one of the mentioned international schemes?
(A) Discover Financial Service (DFS)
(B) Japan Credit Bureau (JCB)
(C) China Union Pay International (CUPI)
(D) American Express (Amex)

Ans :

(D) American Express (Amex)
To enhance international interoperability, NPCI has established partnerships with several global card schemes. The text explicitly mentions tie-ups with Discover Financial Service (DFS), Japan Credit Bureau (JCB), and China Union Pay International (CUPI). American Express (Amex) is not mentioned in this specific list of partners for NFS network access.

Oct/Nov 2006

53. Which of the following Value Added Services (VAS) offered on NFS network ATMs/CDMs allows for seeding of an Aadhaar number to a bank account?
(A) Interoperable Cash Deposit (ICD)
(B) Mobile Banking Registration (MBR)
(C) Aadhar Number Seeding (ANS)
(D) Card-to-Card Fund Transfer (C2C)

Ans :

(C) Aadhar Number Seeding (ANS)
The National Financial Switch network supports several Value Added Services beyond basic transactions. The service specifically designed to enable customers to link their unique Aadhaar identification number to their bank account using an ATM or CDM is known as Aadhar Number Seeding (ANS), enhancing the convenience of fulfilling this KYC-related requirement.

May/June 2024

54. Who is the owner and co-coordinator of the NFS network, responsible for its operation and maintenance?
(A) IDRBT
(B) NPCI
(C) IFTAS
(D) RBI

Ans :

(B) NPCI
While IDRBT originally launched the NFS, the ownership and operational responsibility were transferred. The National Payments Corporation of India (NPCI) is now the owner and co-coordinator of the NFS network. NPCI is responsible for operating and maintaining the

NODIA

network, either directly or by using the services of a third-party service provider.

Oct/Nov 2013

55. The Indian Banking Community Cloud (IBCC) was set up by IDRBT as a pilot approach to provide which specific type of cloud service to Indian banks?
(A) Software as a Service (SaaS)
(B) Platform as a Service (PaaS)
(C) Function as a Service (FaaS)
(D) Infrastructure as a Service (IaaS)

Ans :

(D) Infrastructure as a Service (IaaS)
The Indian Banking Community Cloud (IBCC) is a strategic initiative to provide cloud services tailored for the banking sector. IDRBT's pilot approach for the IBCC was specifically to provide Infrastructure as a Service (IaaS). This involves offering a shared pool of computing resources like servers, storage, and networks for banks to run their applications.

May/June 2011

56. In the context of cloud computing, which service model provides a computing environment as a service for customers to build their own applications that run on the provider's infrastructure?
(A) Platform as a Service (PaaS)
(B) Software as a Service (SaaS)
(C) Infrastructure as a Service (IaaS)
(D) Business Process as a Service (BPaaS)

Ans :

(A) Platform as a Service (PaaS)
Platform as a Service (PaaS) is one of the three fundamental cloud service models. In the PaaS model, the provider offers a complete computing platform and solution stack, typically including an operating system, programming language execution environment, database, and web server. This allows customers to develop, run, and manage their own applications without building the underlying infrastructure.

Oct/Nov 2020

57. A company subscribes to a cloud service where the provider offers a pool of equipment including servers and storage systems, and the company hosts its own software on this equipment. What is this service model called?
(A) SaaS
(B) PaaS
(C) IaaS
(D) Community Cloud

Ans :

(C) IaaS
This scenario describes Infrastructure as a Service (IaaS). In this model, the cloud provider supplies fundamental computing resources such as servers, storage systems, and network equipment as a service. The customer then has the flexibility to deploy and run their own software, including operating systems and applications, on this provided cloud infrastructure.

May/June 2009

58. What is a "community cloud"?
(A) A collaborative service where infrastructure is shared by organizations with common concerns.
(B) A cloud infrastructure made available to the general public.
(C) A cloud infrastructure operated solely for a single organization.
(D) A cloud model that is a composition of two or more distinct cloud infrastructures.

Ans :

(A) A collaborative service where infrastructure is shared by organizations with common concerns.
A community cloud is a specific deployment model designed for a group of organizations that share common interests or concerns, such as security, compliance, or jurisdiction. The cloud infrastructure is shared among these several organizations from a familiar society, and it can be managed internally by one of the organizations or by a third party.

Oct/Nov 2015

59. Wealth management solutions are designed to enable end-to-end processing of investment products from diverse asset classes. Which of the following is an example of such a product?
(A) Savings Bank Account
(B) Personal Loan
(C) Credit Card
(D) Structured Deposits

Ans :

(D) Structured Deposits

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Wealth management solutions are specialized systems that handle complex investment products beyond standard retail banking offerings. The asset classes they process include structured products like structured deposits and structured notes, as well as equities, mutual funds, and insurance. Standard savings accounts, personal loans, and credit cards are typically managed by the core banking system.

May/June 2018

60. How do integrated wealth management solutions help banks capitalize on their customer base?
(A) By enabling the bank to systematically offer higher interest rates on savings accounts.
(B) By providing a single, unified view of a customer's entire investment portfolio.
(C) By creating efficiencies that allow for reducing the number of branches to lower costs.
(D) By helping to shift the bank's strategic focus entirely to corporate clients.

Ans :

(B) By providing a single, unified view of a customer's entire investment portfolio.
A key advantage of integrating wealth management solutions with core banking and CRM is the creation of a unique customer definition and a single, unified view of the customer's entire portfolio. This holistic view across all asset classes helps banks to better understand their customers, especially HNWIs and the mass affluent, and capitalize on this base.

Oct/Nov 2007

61. Which of the following is NOT listed as a key module within the wealth management solutions discussed?
(A) Structured Products
(B) Mutual Funds
(C) Corporate Treasury Management
(D) Insurance

Ans :

(C) Corporate Treasury Management
The text outlines the key modules or product categories that are typically managed by a wealth management solution. These include specialized investment areas such as Structured Products, Mutual Funds, Equities, and Insurance. Corporate Treasury Management is a distinct and separate area of banking that deals with a company's financial activities, not individual wealth management.

May/June 2022

62. How do wealth management solutions leverage the HNWI (High Net Worth Individual) opportunity for a bank?
(A) By offering standardized, one-size-fits-all investment plans.
(B) By restricting HNWIs to only low-risk government securities.
(C) By automatically investing their funds without consultation.
(D) Through sophisticated analytics and tools for personalized, fee-based advice.

Ans :

(D) Through sophisticated analytics and tools for personalized, fee-based advice.
Wealth management solutions enable banks to effectively serve HNWIs by providing rich, integrated insights into their investment portfolios. They deploy sophisticated analytics, financial planning tools, and asset allocation models to identify opportunities. This allows the bank to explore prospects for cross-selling and offer valuable fee-based, personalized advice to these high-value clients.

Oct/Nov 2023

63. The capability of wealth management solutions to enable Straight Through Processing (STP) contributes to which primary business benefit?
(A) Higher Operational Efficiency
(B) Lower Total Cost of Ownership
(C) Ease of Enhancing Product Portfolio
(D) Leveraging the HNWI Opportunity

Ans :

(A) Higher Operational Efficiency
Straight Through Processing (STP) means that financial transactions are processed automatically without manual intervention. By enabling STP and integrating seamlessly with core banking and external data sources, wealth management solutions play a crucial role in minimizing operational delays and ensuring a smooth, efficient flow of transactions, which directly translates to Higher Operational Efficiency.

May/June 2006

64. What characteristic of new-generation wealth management solutions ensures protection for the

NODIA

Oct/Nov 2014

45. The Department of Financial Services has requested Public Sector Banks to use SFMS for sending and receiving which specific types of instruments?
(A) Cheques and Demand Drafts.
(B) Fixed Deposit Receipts.
(C) Letter of Credit and Bank Guarantees.
(D) Equity share certificates.

Ans :

(C) Letter of Credit and Bank Guarantees.
Recognizing the need for a standardized and secure communication channel for trade finance instruments, the Department of Financial Services has specifically directed Public Sector Banks to utilize the Structured Financial Messaging System (SFMS). This directive is for the purpose of sending and receiving instruments such as Letters of Credit (LCs) and Bank Guarantees (BGs).

May/June 2021

46. The National Financial Switch (NFS) ATM network was initially launched by which organization and on what date?
(A) By NPCI on December 14, 2009.
(B) By RBI on March 06, 1996.
(C) By IFTAS on April 01, 2016.
(D) By IDRBT on August 27, 2004.

Ans :

(D) By IDRBT on August 27, 2004.
The National Financial Switch (NFS) was a pioneering initiative to interconnect ATMs across the country. It was originally launched by the Institute for Development and Research on Banking Technology (IDRBT) on August 27, 2004. It was later taken over by the National Payments Corporation of India (NPCI) to scale up its operations.

Oct/Nov 2010

47. As of April 30, 2022, the NFS network comprised 1212 members. This membership included which of the following categories?
(A) Direct members, Sub members, RRBs, and WLAOs.
(B) Only Direct member banks and Sub member banks.
(C) Only PSBs and New Gen Private Banks.
(D) Only Indian banks, with no foreign bank participation.

Ans :

(A) Direct members, Sub members, RRBs, and WLAOs.
The membership of the National Financial Switch network is diverse, encompassing various types of financial entities. The statistics from April 30, 2022, show that the 1212 members included 112 Direct member banks, 1053 Sub member banks, 43 Regional Rural Banks (RRBs), and 4 White Label ATM Operators (WLAOs), reflecting its extensive reach.

May/June 2013

48. What is the one-time subscription fee a member bank must pay to join the NFS network directly?
(A) ₹6,00,000 plus applicable taxes.
(B) ₹3,00,000 plus applicable taxes.
(C) ₹0.45 per transaction.
(D) ₹17 per withdrawal.

Ans :

(B) ₹3,00,000 plus applicable taxes.
To become a direct member of the National Financial Switch (NFS) network, a bank is required to pay a one-time entry fee. The specified amount for this one-time subscription fee is ₹3,00,000 (three lakh rupees), in addition to any applicable taxes. This fee grants the bank access to the extensive interconnected ATM network.

Oct/Nov 2025

49. In the NFS sponsorship model, a sub-member joins the network through a sponsor bank. What is the one-time fee that the sponsor bank must pay?
(A) ₹3,00,000 plus applicable taxes.
(B) ₹6,00,000 plus applicable taxes.
(C) ₹17 per transaction on behalf of the sub-member.
(D) ₹6 per non-financial transaction.

Ans :

(B) ₹6,00,000 plus applicable taxes.
The NFS network offers a sponsorship model where larger banks can bring smaller banks (sub-members) into the network. In this arrangement, the sponsor bank is required to pay a one-time fee of ₹6,00,000 (six lakh rupees), plus applicable taxes, to facilitate the entry of the sub-member into the NFS ecosystem.

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May/June 2014

68. The universe of digital lenders is classified into three groups. Which group consists of entities lending outside the purview of any statutory or regulatory provisions?

(A) Group A: Entities regulated by the RBI.
(B) Group B: Entities authorized by other statutory provisions but not regulated by RBI.
(C) Group D: Entities that are only Lending Service Providers (LSPs).
(D) Group C: Entities lending outside any statutory/regulatory purview.

Ans :

(D) Group C: Entities lending outside any statutory/regulatory purview.
The classification of digital lenders helps in applying the appropriate regulatory approach. Group 'c' (or the third group) is defined as consisting of entities that are conducting lending activities but fall outside the purview of any existing statutory or regulatory provisions. The framework proposes specific legislative interventions to curb the illegitimate activities of this group.

Oct/Nov 2021

69. According to the RBI's regulatory framework for digital lending, where must all loan disbursals and repayments be executed?

(A) Between the borrower's bank account and the Lending Service Provider's (LSP) pool account.
(B) Through a third-party payment aggregator's account designated for the loan.
(C) Directly between the bank accounts of the borrower and the Regulated Entity (RE).
(D) In cash at the Regulated Entity's nearest branch office.

Ans :

(C) Directly between the bank accounts of the borrower and the Regulated Entity (RE).
A key customer protection measure in the digital lending framework is to ensure a clear and direct flow of funds. The regulations mandate that all loan disbursals and repayments must be executed only between the bank account of the borrower and the bank account of the Regulated Entity (RE), without any pass-through or pool account of an LSP.

May/June 2016

70. Under the new digital lending guidelines, who is responsible for paying any fees or charges to the Lending Service Providers (LSPs) for their role in the credit intermediation process?

(A) The borrower must pay the LSP directly.
(B) The Regulated Entity (RE) must pay the LSP directly.
(C) The fees are paid by the Reserve Bank of India.
(D) The fees are deducted from the loan amount before disbursement to the borrower.

Ans :

(B) The Regulated Entity (RE) must pay the LSP directly.
To enhance transparency and prevent hidden charges for the borrower, the framework specifies the payment mechanism for LSPs. Any fees, charges, or commissions payable to LSPs for their services in the credit intermediation process must be paid directly by the Regulated Entity (RE) and not by the borrower, ensuring clarity in the cost of the loan.

Oct/Nov 2008

71. What document must be provided to the borrower before the execution of a digital loan contract, containing details like the Annual Percentage Rate (APR)?

(A) A copy of the Regulated Entity's annual report.
(B) A welcome letter from the CEO of the bank.
(C) A detailed technical manual of the digital lending app.
(D) A standardized Key Fact Statement (KFS).

Ans :

(D) A standardized Key Fact Statement (KFS).
To ensure the borrower is fully informed about the terms of the loan, the regulations mandate the provision of a specific document. A standardized Key Fact Statement (KFS) must be given to the borrower before the loan contract is executed. This statement must disclose the all-inclusive cost in the form of the Annual Percentage Rate (APR).

May/June 2025

72. What is explicitly prohibited under the customer protection rules for digital lending without the borrower's explicit consent?

(A) Automatic increase in the credit limit.

NODIA

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion is true; the EERC, led by Dr. C. Rangarajan, did recommend that IDRBT hive off its services. The reason is also true and correctly explains the assertion. The committee's rationale was that for IDRBT to excel as a premier research and development institution in banking technology, it needed to shed its operational service-providing role.

May/June 2007

36. What is the name of the Section 8 company promoted by IDRBT to take over its service-providing functions, which was later wholly acquired by the RBI?
(A) National Payments Corporation of India (NPCI)
(B) Clearing Corporation of India Ltd (CCIL)
(C) Reserve Bank Information Technology Pvt Ltd (ReBIT)
(D) The Indian Financial Technology and Allied Services (IFTAS)

Ans :

(D) The Indian Financial Technology and Allied Services (IFTAS)
Following the EERC's recommendation, IDRBT promoted a new Section 8 company to handle its operational services. This company was named The Indian Financial Technology and Allied Services (IFTAS). IFTAS took over services like INFINET and SFMS from IDRBT and was subsequently wholly acquired by the Reserve Bank of India in March 2019.

Oct/Nov 2009

37. On which date did The Indian Financial Technology and Allied Services (IFTAS) officially take over INFINET, SFMS, and IBCC from IDRBT?
(A) March 06, 1996
(B) July 2009
(C) April 01, 2016
(D) January 2010

Ans :

(C) April 01, 2016
The transfer of operational services from IDRBT to the newly formed entity IFTAS was a formal process with a specific effective date. IFTAS officially took over the management and operation of the INDIAN Financial Network (INFINET), Structured Financial Messaging System (SFMS), and the Indian Banking Community Cloud (IBCC) from IDRBT, effective April 01, 2016.

May/June 2012

38. What type of network is the Indian Financial Network (INFINET)?
(A) An open public network for all internet users.
(B) A closed user group network for the banking and financial sectors.
(C) A global network for international fund transfers.
(D) A wireless network exclusively for mobile banking applications.

Ans :

(B) A closed user group network for the banking and financial sectors.
INFINET is specifically designed as a nationwide communication backbone for a restricted set of users. It is a 'closed user group network', meaning access is limited to participants from the Indian banking and financial sectors. This secure, private network facilitates various inter-bank and intra-bank applications, ensuring data integrity and security.

Oct/Nov 2018

39. Which of the following is listed as an advantage of using INFINET?
(A) Increased payment risks due to network complexity.
(B) Restricted banking business reach and hours.
(C) Slower decision-making process due to centralized control.
(D) Reduction or elimination of payment risks.

Ans :

(D) Reduction or elimination of payment risks.
INFINET offers several advantages that enhance the efficiency and security of the banking system. One of the key benefits is the reduction or elimination of payment risks, facilitated by its secure and reliable communication backbone. Other advantages include extended reach, increased security, efficient housekeeping, and improved decision-making processes for member institutions.

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(D) The borrower must write a physical letter to the bank's head office to revoke consent.

Ans :

(B) The option to revoke the previously granted consent for accessing specific data.
The RBI framework empowers borrowers with control over their data. It mandates that an option should be provided for borrowers to accept or deny consent for the use of specific data. Crucially, this includes an option to revoke any previously granted consent, as well as the option to request the deletion of data collected by the DLAs/LSPs.

Oct/Nov 2016

77. Under the regulatory framework for digital lending, what is the requirement for reporting loans sourced through Digital Lending Apps (DLAs)?
(A) Only loans above ₹1 lakh need to be reported.
(B) Reporting is optional and at the discretion of the Regulated Entity (RE).
(C) Any lending sourced through DLAs must be reported to CICs, irrespective of its nature or tenor.
(D) Only short-term credit or deferred payments need to be reported.

Ans :

(C) Any lending sourced through DLAs must be reported to CICs, irrespective of its nature or tenor.
To ensure a comprehensive credit history and promote responsible lending, the framework makes reporting to Credit Information Companies (CICs) mandatory. Any lending that is sourced through a Digital Lending App (DLA) is required to be reported to the CICs by the Regulated Entity (RE), regardless of the loan's nature or its tenure.

May/June 2007

78. Identify the incorrect statement regarding the technology process models in retail banking.
(A) The Horizontally Organised Model supports one product per platform with no data sharing.
(B) The Vertically Organised Model uses centralized customer information for common processes.
(C) The Predominantly Vertically Organised Model is a hybrid offering common information for related services.
(D) The Predominantly Horizontally Organised Model prevents any form of customer data integration.

Ans :

(D) The Predominantly Horizontally Organised Model prevents any form of customer data integration.
The statement that the Predominantly Horizontally Organised Model prevents any form of customer data integration is incorrect. This model, while being product-oriented, does allow for customer data integration to a certain extent for other products. The other three statements accurately describe their respective models as discussed in the chapter's analysis of the BCG study.

Oct/Nov 2009

79. Consider the following statements about technology implementation in Indian banks:
1. New generation private banks started with a single server environment advantage.
2. 'Early bird' PSBs often developed their own proprietary, in-house software.
3. Old generation private banks, due to their small size, mostly chose the outsourcing route.

Which of the above statements are correct?
(A) 1, 2, and 3
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1 and 3 only

Ans :

(A) 1, 2, and 3
All three statements accurately reflect the history of technology adoption among different bank types in India. New generation private banks leveraged their late entry to start with modern single-server environments. Early PSBs undertook the effort of in-house proprietary development. Small, old generation private banks found outsourcing to be the most practical route to adopt modern technology.

May/June 2012

80. Match the cloud computing service model (List-I) with its correct description (List-II).
List-I (Service Model)
P. SaaS
Q. PaaS
R. IaaS

Oct/Nov 2010

89. According to the digital lending framework, which of the following actions is a responsibility of the Regulated Entities (REs)?
(A) To pay the borrower's internet charges for using the digital lending app.
(B) To provide a mandatory automatic increase in credit limit every year.
(C) To ensure that they and their engaged LSPs have a suitable nodal grievance redressal officer.
(D) To report all lending activities directly to the Ministry of Finance.

Ans :

(C) To ensure that they and their engaged LSPs have a suitable nodal grievance redressal officer.
The RBI's digital lending framework places the responsibility of grievance redressal squarely on the Regulated Entities. REs must ensure that both their own organization and any Lending Service Providers (LSPs) they engage have appointed a suitable nodal grievance redressal officer to specifically handle FinTech and digital lending-related complaints from borrowers effectively.

May/June 2013

90. The first step in platform automation, which enables employees to have a single view of the customers, is spurred on by forces described by which marketing theorist?
(A) Kotler
(B) Saraf
(C) Rangarajan
(D) Haskett

Ans :

(A) Kotler
The text mentions that technological innovation in retail banking, particularly regarding new distribution channels, has been spurred on by forces described by Kotler. The first step in this process is platform automation, which is critical for providing employees with a single, unified view of the customer, enabling better service and cross-selling opportunities.

Oct/Nov 2025

91. Assertion (A): Technology and Retail Banking are inseparable.
Reason (R): Technology is the foundation on which the retail banking edifice is built across the globe and is the enabler for building and translating a customer database into business.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that technology and retail banking are inseparable is a core theme of the chapter. The reason provided is the correct explanation for this assertion. Technology serves as the fundamental platform globally for all retail banking operations, enabling the creation of customer databases and their conversion into profitable retail banking business, making them inextricably linked.

May/June 2005

92. Which of the following is NOT a benefit of performing customer analytics?
(A) Enhanced customer value.
(B) Reduced conversion and retention rates.
(C) Reduced costs.
(D) Enhanced profitability.

Ans :

(B) Reduced conversion and retention rates.
Performing customer analytics yields numerous benefits for a retail bank, including enhanced customer value through better targeting, reduced operational costs, and ultimately, enhanced profitability. A reduction in conversion and retention rates would be a negative outcome, whereas the goal and benefit of analytics is to enhance or increase these very rates through better customer understanding.

Oct/Nov 2019

93. A bank's CRM system automatically sends an SMS to a customer after a large withdrawal and also flags the transaction for an internal review by a bank officer. This demonstrates which dual function of an effective CRM?
(A) Performing both transaction processing and data archiving.
(B) Supporting both J2EE and .NET technologies.
(C) Alerting both the customer and bank employees.
(D) Serving both retail and corporate customers.

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Ans :

(D) 3, 4, 1, 2
The correct chronological sequence is: The Saraf Committee was constituted in 1994 (3). Based on its report, IDRBT started functioning on March 06, 1996 (4). IDRBT handed over the NFS to NPCI in January 2010 (1). Finally, IFTAS took over services like INFINET and SFMS from IDRBT on April 01, 2016 (2).

Oct/Nov 2022

85. A small cooperative bank wishes to offer ATM services to its customers but cannot afford the cost of direct membership in the NFS network. What is the most viable option for this bank to join the network?
(A) Apply for a loan from RBI to pay the direct membership fee.
(B) Build its own separate, proprietary ATM switch.
(C) Join as a sub-member through a larger sponsor bank.
(D) Wait until the direct membership fee is waived for cooperative banks.

Ans :

(C) Join as a sub-member through a larger sponsor bank.
The National Financial Switch network provides a sponsorship model precisely for such scenarios. This model allows smaller banks, like the cooperative bank in this case, to join the network as sub-members by coming through a larger sponsor bank. This is a more financially viable and practical route than seeking direct membership or building a proprietary switch.

May/June 2008

86. Which feature of SFMS allows for the flexible definition of messages, similar to SWIFT's user-to-user and system messages?
(A) Directory Services
(B) Template Builder
(C) Smart card based user access
(D) Multi-tiered solution

Ans :

(B) Template Builder
The Template Builder is a key feature of the Structured Financial Messaging System (SFMS). It provides the flexibility needed to support a wide range of messaging needs by allowing for the definition of various message formats. This is similar to the capability within SWIFT to create user-to-user and system messages, making SFMS highly adaptable.

Oct/Nov 2014

87. Consider the following statements regarding the NFS interchange fee structure:
1. The interchange fee for a cash withdrawal is ₹17.
2. The card-issuing member pays the interchange fee to the card-acquiring member.
3. The transaction switching fee of ₹0.45 is paid by the card-issuing member to NPCI.

Which of the above statements are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2, and 3

Ans :

(D) 1, 2, and 3
All three statements accurately describe the NFS fee structure. The interchange fee for cash withdrawal is indeed ₹17. This fee is paid by the card issuer to the ATM owner (acquirer) for providing the service. Additionally, the card-issuing member pays a separate transaction switching fee of ₹0.45 per approved transaction to NPCI for routing the transaction.

May/June 2021

88. The ability of a wealth management solution to interface seamlessly with satellite and specialized systems to support a faster rollout of new products at the bank is a key component of which benefit?
(A) Ease of Enhancing Product Portfolio
(B) Lower Total Cost of Ownership
(C) Higher Operational Efficiency
(D) Leveraging the HNWI Opportunity

Ans :

(A) Ease of Enhancing Product Portfolio
The 'Ease of Enhancing Product Portfolio' is demonstrated by a solution's flexibility and integration capabilities. The ability to interface seamlessly with various other systems (satellite and specialized) is crucial as it supports the faster rollout of new products by leveraging existing infrastructure and data sources, without requiring extensive redevelopment or manual workarounds.

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May/June 2007

4. Banking Technology is described as a confluence of several disparate fields. Which of the following is explicitly NOT mentioned as one of these fields?

(A) Finance (subsuming risk management)
(B) Information Technology
(C) Marketing Science
(D) Human Resource Management

Ans :

(D) Human Resource Management
Banking Technology is presented as an interdisciplinary field that integrates finance, risk management, information technology, communication technology, computer science, and marketing science. These fields combine to create the technological framework of modern banking. Human resource management, while crucial for a bank's operation, is not listed as a core constituent discipline of banking technology itself.

Oct/Nov 2019

5. Which of the three main dimensions of Banking Technology covers the use of hardware and software for various delivery channels and payment systems?

(A) The risk management dimension.
(B) The data mining and analytics dimension.
(C) The functional hardware and software dimension.
(D) The marketing science dimension.

Ans :

(C) The functional hardware and software dimension.
The first dimension of Banking Technology specifically involves the use of appropriate hardware and associated software for business operations and customer servicing. This includes the entire infrastructure for delivery channels and payment systems, such as computer networks, ATMs, credit cards, internet banking, and mobile banking, which are supported by advances in information and communication technologies.

May/June 2021

6. The second dimension of Banking Technology focuses on using advanced computer science algorithms. What is the primary purpose of these algorithms in banking?

(A) To manage the bank's internal financial accounting systems and daily bookkeeping processes.
(B) To solve marketing-related problems like customer segmentation, scoring, and cross-selling.
(C) To secure the bank's internal computer network infrastructure against external cyber-attacks.
(D) To quantify, measure, and actively manage credit, market, and operational risks.

Ans :

(B) To solve marketing-related problems like customer segmentation, scoring, and cross-selling.
The second dimension is dedicated to applying advanced computer science algorithms, specifically for data mining on customer data. This helps banks address complex marketing challenges, including customer segmentation, target marketing, market-basket analysis, and customer retention. The goal is to leverage data to enhance profitability and outperform competitors through smarter marketing strategies.

Oct/Nov 2011

7. The third important dimension of Banking Technology is concerned with the quantification, measurement, mitigation, and management of which key risks?

(A) Legal risk, reputational risk, and strategic risk.
(B) Technology risk, compliance risk, and liquidity risk.
(C) Systemic risk, political risk, and environmental risk.
(D) Credit risk, market risk, and operational risk.

Ans :

(D) Credit risk, market risk, and operational risk.
The third dimension explicitly addresses the critical area of risk management. It encompasses the processes and tools required for the quantification, measurement, mitigation, and management of all kinds of risks that banks face. The primary risks highlighted within this dimension are credit risk, market risk, and operational risk, which are fundamental to a bank's stability.

NODIA

Ans :

(C) Alerting both the customer and bank employees.
This scenario perfectly illustrates the dual-alerting capability of an effective Customer Relationship Management (CRM) system. The system communicates externally by sending an alert to the customer about the transaction. Simultaneously, it communicates internally by alerting bank employees, in this case for a review, ensuring both customer information and internal operational awareness are maintained.

May/June 2017

94. A bank introduces a digital lending app. To make the process faster, the app automatically increases a customer's credit limit by 10% every six months if they pay their EMIs on time. This practice would be a violation of which RBI digital lending guideline?
(A) The guideline requiring the provision of a standardized Key Fact Statement (KFS).
(B) The mandate for reporting all digital lending activities to Credit Information Companies (CICs).
(C) The requirement to appoint a nodal grievance redressal officer for digital lending.
(D) The rule prohibiting automatic credit limit increases without explicit borrower consent.

Ans :

(D) The rule prohibiting automatic credit limit increases without explicit borrower consent.
The RBI's digital lending framework explicitly prohibits the automatic increase of a credit limit without the borrower's explicit consent. The bank's practice, while seemingly a reward for good behavior, is a direct violation of this consumer protection rule. Any change in the credit limit must be actively and explicitly approved by the borrower beforehand.

Oct/Nov 2006

95. A Fintech company acting as a Lending Service Provider (LSP) for a Regulated Entity (RE) collects a "processing fee" directly from the borrower's bank account before the loan is disbursed. According to RBI rules, is this practice permissible?
(A) No, because any fees payable to the LSP must be paid by the RE, not the borrower.
(B) Yes, because LSPs are allowed to collect their fees directly.
(C) Yes, but only if the fee is less than 1% of the loan amount.
(D) No, because all fees must be paid in cash at the RE's branch.

Ans :

(A) No, because any fees payable to the LSP must be paid by the RE, not the borrower.
This practice is a clear violation of the RBI's digital lending framework. The rules are designed to ensure transparency for the borrower regarding the cost of the loan. They explicitly state that any fees or charges due to an LSP for their services must be paid directly by the Regulated Entity (RE) and not by the borrower.

May/June 2024

96. Which technology trend involves developing self-learning banking systems that use computer programs to serve in customer-facing situations?
(A) Cloud-based infrastructure.
(B) Data Analytics and Artificial Intelligence.
(C) Open Banking and Embedded Finance.
(D) Next-level process automation.

Ans :

(B) Data Analytics and Artificial Intelligence.
The development of self-learning banking systems, which can adapt and improve their performance in customer-facing roles without being explicitly reprogrammed, is a direct application of Data Analytics and Artificial Intelligence (AI). These technologies enable systems to understand patterns, learn from interactions, and provide increasingly sophisticated service, moving towards more autonomous operations.

Oct/Nov 2013

97. Identify the correct statement about the technology models adopted by banks.
(A) Foreign banks exclusively developed proprietary models in-house.
(B) Late entrants among PSBs typically took the external vendor route for better efficiency.
(C) New generation private banks followed a 'bits and pieces' approach with multiple vendors.
(D) All PSBs, regardless of size, adopted a uniform, centralized technology model.

Ans :

(B) Late entrants among PSBs typically took the external vendor route for better efficiency.

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The text states that late entrants in technology implementation among PSBs chose the external vendor route. This strategy was adopted to achieve better channel delivery and overall efficiency, allowing them to catch up with more technologically advanced banks by leveraging ready-made, modern solutions instead of going through a lengthy in-house development cycle.

May/June 2011

98. What is the primary role of the 'Analytics and Alerts' type of information captured by retail banking software?
(A) To provide operational and strategic alerts for action or strategy development.
(B) To record the customer's basic account opening data.
(C) To update the customer's income details at regular frequencies.
(D) To log all transaction details from disbursement to final settlement.

Ans :

(A) To provide operational and strategic alerts for action or strategy development.
The 'Analytics and Alerts' information layer serves a proactive purpose. It processes other data types (static, updated, transaction) to generate both operational alerts that require immediate action (e.g., a potentially fraudulent transaction) and strategic alerts that inform the development of future strategies (e.g., identifying a customer for a cross-sell opportunity).

Oct/Nov 2020

99. The technology-agnostic nature of a customer analytics solution, allowing deployment on existing tools with minimal customization, directly contributes to which business benefit?
(A) Enhanced Customer Value
(B) Improved Decision-making Support
(C) Low Total Cost of Ownership
(D) Reduced Time to Market

Ans :

(C) Low Total Cost of Ownership
A solution being 'technology-agnostic' means it is not dependent on a specific technology stack. This feature allows it to be deployed on a bank's existing reporting and modelling tools with minimal customization. This significantly reduces the need for new infrastructure or resource investments, thereby directly resulting in a Low Total Cost of Ownership (TCO).

May/June 2009

100. According to the RBI's digital lending framework, all new digital lending products involving short-term credit or deferred payments extended by REs over merchant platforms must be reported to whom?
(A) The Reserve Bank - Integrated Ombudsman.
(B) The Lending Service Provider (LSP).
(C) The Department of Financial Services.
(D) The Credit Information Companies (CICs).

Ans :

(D) The Credit Information Companies (CICs).
To ensure a comprehensive credit reporting system that captures all forms of digital credit, the regulatory framework has a specific mandate. It requires that all new digital lending products, including those involving short-term credit or deferred payment options (like Buy Now, Pay Later) offered over merchant platforms, must be reported to the Credit Information Companies (CICs).

NODIA

CHAPTER 13

Uses of AI and Technology in Retail Banking

Oct/Nov 2012

1. According to the definition of "Banking Technology," what is its primary purpose?
   (A) To exclusively focus on automating back-office administrative processes to reduce staffing levels.
   (B) To provide superior, secure, and affordable services through technology to maintain a competitive advantage.
   (C) To systematically replace all physical branch locations with digital-only platforms to minimize operational costs.
   (D) To focus primarily on the in-house development of proprietary hardware for conducting financial transactions.

   Ans :

   (B) To provide superior, secure, and affordable services through technology to maintain a competitive advantage.
   Banking Technology is defined as the application of sophisticated information and communication technologies, along with computer science, to enable banks to provide superior services. The goal is to enhance security, reliability, and affordability, which helps banks maintain a competitive edge over their rivals in the financial market and improve overall customer satisfaction.

May/June 2010

2. The activity of using advanced computer algorithms to sift through customer details like demographic and transactional data to unravel behaviour patterns is also known as what?
   (A) Data Mining
   (B) Customer Relationship Management (CRM)
   (C) Online Analytical Processing (OLAP)
   (D) Business Process Re-engineering (BPR)

   Ans :

   (A) Data Mining
   Data mining is the specific activity of using advanced algorithms to analyze large sets of customer data. This process helps in discovering patterns in customer behaviour by examining demographic, psychographic, and transactional information. The insights gained from data mining are then used by banks to solve various marketing problems and achieve their business objectives.

Oct/Nov 2025

3. How does the successful application of data mining primarily help banks achieve a sustainable competitive advantage?
   (A) By automating the process of opening new customer accounts and verifying identity documents online.
   (B) By reducing the need for physical security guards at bank branches through advanced surveillance systems.
   (C) By helping solve marketing problems like customer segmentation, churn modelling, and cross-selling.
   (D) By standardizing all product offerings, such as savings accounts and loans, across the entire customer base.

   Ans :

   (C) By helping solve marketing problems like customer segmentation, churn modelling, and cross-selling.
   Data mining provides banks with deep insights into customer behavior, which allows them to address specific marketing challenges. By effectively implementing customer segmentation, scoring, target marketing, cross-selling, and churn modeling, banks can significantly increase profits and retain customers. This strategic use of data helps them maintain a sustainable advantage over competitors in the long run.

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May/June 2005

12. In the context of the relationship between banking and technology, what has the use of technology as a revolutionary measure enabled banks to do?

(A) Increase the number of physical bank branches in high-density urban areas.

(B) Deliver services to customers through new delivery channels and payment methods.

(C) Focus exclusively on high-net-worth individual clients and corporate accounts.

(D) Eliminate the need for human employees in all customer service and advisory roles.

Ans :

(B) Deliver services to customers through new delivery channels and payment methods.

Technology serves as a revolutionary tool for automating processes and, more importantly, delivering services to customers through new channels like ATMs, mobile banking, and net banking. This shift in service delivery has also led to a drastic reduction in the cost of providing these services, making banking more efficient and accessible for a wider audience.

Oct/Nov 2022

13. What recent global event significantly enhanced the dependence of people on digital banking, turning it into a way of life for many?

(A) The global financial crisis of the year 2008.

(B) The founding of the World Trade Organization agreement.

(C) The Post Covid-19 pandemic and associated lockdowns.

(D) The widespread Y2K computer bug scare in 2000.

Ans :

(C) The Post Covid-19 pandemic and associated lockdowns.

The Post-Covid-19 pandemic is highlighted as a major catalyst that accelerated the adoption of digital banking. During lockdown periods, the use of technologies like ATMs, credit/debit cards, mobile banking, and net banking became essential for survival. This period not only enhanced dependence on digital channels but also integrated them into the daily lives of common people.

NODIA

May/June 2018

14. Which statement about the persistence of bank branches is correct?

(A) Brick-and-mortar bank branches are expected to disappear due to new high-tech delivery channels.

(B) Only younger, tech-savvy customers prefer conducting business through physical bank branches.

(C) The proliferation of mobile phones directly causes the rapid disappearance of traditional bank branches.

(D) The rise of high-tech channels does not mean physical branches will completely disappear.

Ans :

(D) The rise of high-tech channels does not mean physical branches will completely disappear.

The text clarifies that while technology is popular, it does not signal the complete end of physical branches. It has been found that certain customer segments, specifically corporate clients and older persons, still prefer to conduct their business through traditional bank branches. This indicates a future of hybrid banking models rather than a complete digital takeover.

Oct/Nov 2016

15. Which organization is credited with introducing the first universal credit card in 1950, a notable technological advancement in the financial industry?

(A) Diners Club

(B) American Express

(C) Visa

(D) Barclays Bank

Ans :

(A) Diners Club

The advent of the credit card in 1950 is cited as the first most notable technological advancement in finance. It was Diners Club that introduced the first universal credit card, which was a portable payment solution accepted at numerous member establishments. This invention fundamentally altered how consumers approached their personal finances and spending habits.

May/June 2013

16. Arrange the following technological advancements in banking in the order of their introduction, from earliest to latest.

1. Mobile Banking Revolution

May/June 2014

8. In the nutshell definition of 'Banking Technology', the term 'Technology' refers to several aspects. Which of the following is NOT included under the 'Technology' part?

(A) Economic and commercial aspects of banking
(B) Information and communication technologies
(C) Computer science
(D) Risk quantification and measurement aspects

Ans :

(A) Economic and commercial aspects of banking
The term 'Banking Technology' is broken down into two components. 'Banking' refers to the economic, financial, commercial, and management aspects. 'Technology' encompasses the technical domains, which include information and communication technologies, computer science, and the aspects of risk quantification and measurement. The economic and commercial aspects fall under the 'Banking' component, not 'Technology'.

Oct/Nov 2005

9. Match the dimension of banking technology (List-I) with its corresponding description (List-II).

List-I
P. First Dimension
Q. Second Dimension
R. Third Dimension

List-II
1. Use of advanced computer science algorithms for marketing problems.
2. Quantification and management of credit, market, and operational risks.
3. Use of hardware and software for delivery channels like ATMs and internet banking.

(A) P-3, Q-1, R-2
(B) P-1, Q-2, R-3
(C) P-2, Q-3, R-1
(D) P-3, Q-2, R-1

Ans :

(A) P-3, Q-1, R-2
The first dimension relates to the physical and software infrastructure (hardware for delivery channels). The second dimension concerns the application of algorithms for data mining and marketing analysis. The third dimension is focused on the crucial function of identifying, measuring, and managing the various risks inherent in the banking business, such as credit and market risk.

May/June 2024

10. Despite enormous technological changes in the banking industry, what fundamental factor has remained the same over the last few decades?

(A) The fundamental nature of the need customers have for banking services.
(B) The specific regulatory framework governing daily bank operations and reporting.
(C) The physical design and interior layout of most bank branches.
(D) The fundamental types of financial risks that banks are exposed to.

Ans :

(A) The fundamental nature of the need customers have for banking services.
While the paradigm for service delivery has changed completely, the core needs of customers for banking services have not. People still require basic services like storing money, making payments, and accessing credit. It is the way banks meet these fundamental needs, through technology and new channels, that has undergone a radical transformation over the years.

Oct/Nov 2018

11. What are identified as the most important changes to have influenced the banking industry during the past few decades?

(A) Architectural designs of bank buildings.
(B) Changes in employee uniform and dress code.
(C) Demographic shifts in the customer base.
(D) Technological and regulatory changes.

Ans :

(D) Technological and regulatory changes.
The text explicitly states that technological and regulatory changes have been so influential in the banking industry over the past few decades that they are considered the most significant changes to have occurred. These two forces have fundamentally reshaped how banks operate, deliver services, manage risk, and interact with their customers and the market.

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List-II (Description)

1. Provides a pool of equipment like servers and storage for customers to host their own software.
2. Provides an on-demand software application for end-users to run through the Internet.
3. Provides a computing environment for customers to build their own applications.

(A) P-1, Q-3, R-2
(B) P-2, Q-3, R-1
(C) P-3, Q-1, R-2
(D) P-2, Q-1, R-3

Ans :

(B) P-2, Q-3, R-1
Software as a Service (SaaS) provides a ready-to-use application to end-users over the internet. Platform as a Service (PaaS) offers a development and deployment environment for customers to build their applications. Infrastructure as a Service (IaaS) provides the fundamental computing resources like servers and storage. The correct matching is therefore P-2, Q-3, and R-1.

Oct/Nov 2018

81. Read the following excerpt: "The EERC, which submitted its report in July 2009, recommended that 'to function as a primary institute of excellence in the area of research and development in banking technology, the Institute needs to shed its function of providing various services by hiving off its services.'"
Which institute is being referred to in this recommendation?
(A) IFTAS
(B) IDRBT
(C) NPCI
(D) IIBF

Ans :

(B) IDRBT
The excerpt refers to the recommendation made by the External Expert Review Committee (EERC) for an institute to focus on R&D. The surrounding context in the chapter clearly identifies this institute as the Institute for Development and Research on Banking Technology (IDRBT). This recommendation led to the creation of IFTAS to take over IDRBT's service-providing functions.

May/June 2020

82. Which of the following is an INCORRECT pair of a technology service and its founder/current operator?
(A) INFINET - Currently operated by IDRBT
(B) NFS - Launched by IDRBT
(C) NFS - Currently operated by NPCI
(D) SFMS - Currently operated by IFTAS

Ans :

(A) INFINET - Currently operated by IDRBT
While IDRBT did launch INFINET, its operational responsibility was transferred. Effective April 01, 2016, The Indian Financial Technology and Allied Services (IFTAS) took over the operation of INFINET, SFMS, and IBCC from IDRBT. Therefore, the statement that INFINET is currently operated by IDRBT is incorrect. The other pairs are correct.

Oct/Nov 2024

83. A bank wants to analyze the effectiveness of its recent marketing initiative for a new credit card. Which key module of a customer analytics solution would be most relevant for this purpose?
(A) Service Request Analysis
(B) Transaction Behaviour Analysis
(C) Campaign Management
(D) Attrition and Loyalty Analysis

Ans :

(C) Campaign Management
The Campaign Management module of a customer analytics solution is specifically designed to help banks plan, execute, and analyze marketing campaigns. It allows the bank to track the response to its initiatives, measure the return on investment, and refine its marketing strategies, making it the most relevant module for analyzing the effectiveness of a new credit card launch.

May/June 2015

84. Arrange the following events in chronological order from earliest to latest:

1. IDRBT hands over NFS to NPCI.
2. IFTAS takes over INFINET, SFMS, and IBCC from IDRBT.
3. The Saraf Committee is constituted by RBI.
4. IDRBT starts functioning.

(A) 4, 3, 2, 1
(B) 3, 1, 4, 2
(C) 1, 3, 4, 2
(D) 3, 4, 1, 2

NODIA

2. Introduction of the Credit Card
3. Convenience of Online Banking
4. Introduction of the first ATM

(A) 4, 2, 1, 3
(B) 2, 4, 3, 1
(C) 2, 3, 4, 1
(D) 1, 3, 2, 4

Ans :

(B) 2, 4, 3, 1
The chronological order of these innovations is as follows: The first universal credit card was introduced in 1950. The first ATM was introduced in the 1960s. Online banking, using terminals and phone lines, gained popularity in the 1980s. The mobile banking revolution, driven by smartphones, took hold in the early 2000s.

Oct/Nov 2021

17. What fundamental change did the introduction of the credit card in 1950 bring to consumer finance?
(A) It forced consumers to visit bank branches more frequently for cash withdrawals and deposits.
(B) It allowed consumers to borrow against a line of credit and pay at a future date.
(C) It completely eliminated the concept of traditional savings and checking accounts.
(D) It was the first form of direct electronic fund transfer between different banking institutions.

Ans :

(B) It allowed consumers to borrow against a line of credit and pay at a future date.
The introduction of the credit card fundamentally changed how consumers thought about their finances. It gave them the freedom to make purchases without carrying cash for every transaction. More importantly, it introduced the concept of borrowing against a pre-approved line of credit, which could be paid off at a later date, enabling larger purchases.

May/June 2008

18. Who is the Scottish inventor credited with conceiving the idea for the first Automated Teller Machine (ATM)?
(A) John Shepherd-Barron
(B) Alan Turing
(C) Tim Berners-Lee
(D) John McCarthy

Ans :

(A) John Shepherd-Barron
John Shepherd-Barron, a Scottish inventor, is credited with the idea for the ATM. He reasoned that if vending machines could dispense chocolate bars, a similar machine should be able to dispense cash. This innovative idea was then adopted by Barclays Bank, leading to the creation of the world's first ATM, a landmark in banking convenience.

Oct/Nov 2013

19. Which bank was the first to adopt the idea of a cash-dispensing machine and create the world's first ATM in the 1960s?
(A) Bank of America
(B) Bank of New South Wales
(C) Barclays Bank
(D) Citibank

Ans :

(C) Barclays Bank
The text states that after Scottish inventor John Shepherd-Barron conceived the idea, Barclays Bank "fell in love with the idea" and proceeded to create the first ATM. This innovation in the 1960s was a major step in providing customers with access to their money outside of traditional banking hours and branch locations.

May/June 2015

20. In the 1960s, the then-Bank of New South Wales purchased its first-ever computer for a sum of £1 million. What was the primary purpose of this computer?
(A) To develop and launch the first online banking platform.
(B) To operate and manage the bank's first Automated Teller Machine.
(C) To create a secure global network for international fund transfers.
(D) To centralize trading accounts and replace manual accounting operations.

Ans :

(D) To centralize trading accounts and replace manual accounting operations.
The Bank of New South Wales purchased the computer to centralize its trading accounts. The goal was to replace the individual machine accounting operations that were being used in each branch. This move was intended to

NODIA

streamline processes and allow the financial institution to place a stronger focus on providing better customer service.

Oct/Nov 2007

21. In which year was the international SWIFT (Society for Worldwide Interbank Financial Telecommunication) payment network established?
(A) 1963
(B) 1983
(C) 1973
(D) 1993

Ans :

(C) 1973
By the 1970s, banks were heavily investing in computer technology to automate manual processing. This period saw the development of the first electronic payment systems for both domestic and international transactions. The establishment of the international SWIFT payment network in 1973 was a key milestone in this development, facilitating secure global financial messaging.

May/June 2025

22. In the context of 1980s banking, what did the term 'online' refer to?
(A) Using a dedicated smartphone application to access various bank accounts.
(B) Using a terminal, keyboard, and TV with a phone line to access the banking system.
(C) Accessing the banking system via a website on the World Wide Web.
(D) Swiping a credit or debit card at a point-of-sale terminal in a retail store.

Ans :

(B) Using a terminal, keyboard, and TV with a phone line to access the banking system.
In the 1980s, before the widespread adoption of the internet as we know it today, the term 'online' had a different meaning in banking. It specifically referred to the use of a hardware setup consisting of a terminal, keyboard, and TV, which connected to the bank's system through a telephone line for accessing services.

Oct/Nov 2020

23. Which company manufactured the first commercially available computer tablet in 1989, which brought a new wave of convenience to retail banking by allowing tellers to be mobile?
(A) Apple
(B) Microsoft
(C) IBM
(D) Samsung

Ans :

(D) Samsung
As online banking gained momentum, the first commercially available computer tablet, manufactured by Samsung in 1989, further enhanced convenience in retail banking. This device allowed bank employees to "move within and even beyond the branch," enabling them to serve customers from a mobile tablet rather than being restricted to a fixed teller counter.

May/June 2022

24. Which P2P (peer-to-peer) money service was introduced in the late 1990s, enabling wireless transfers and paving the way for similar services like Venmo and Popmoney?
(A) PayPal
(B) Google Wallet
(C) Apple Pay
(D) Zelle

Ans :

(A) PayPal
In the late 1990s, consumers were introduced to PayPal, a pioneering P2P money service that facilitated wireless money transfers. The creation and success of PayPal were significant as it spawned a myriad of similar businesses, including Venmo, Popmoney, and Zelle, making it much more convenient for people to pay for services wirelessly.

Oct/Nov 2023

25. The mobile banking revolution of the early 2000s was made possible by the confluence of which two major technological developments?
(A) The sequential invention of the credit card and the first ATM.
(B) The establishment of the SWIFT network and domestic payment systems.
(C) The advent of wireless technology and widespread smartphone adoption.
(D) The development of mainframe computers and magnetic tape data storage.

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Ans :

(C) The advent of wireless technology and widespread smartphone adoption.
The early 2000s marked a major shift in the financial industry with the rise of mobile banking. This revolution was driven primarily by two key factors: the maturation and widespread availability of wireless technology and the increasing adoption of smartphones by the general public. This combination allowed people to manage their finances from virtually anywhere.

May/June 2016

26. What is the name of the 2004 US federal law that facilitated remote check deposit capture by allowing a recipient to create a digital image of a check for electronic processing?
(A) The Check Clearing for the 21st Century Act
(B) The Bank Secrecy Act
(C) The Gramm-Leach-Bliley Act
(D) The Patriot Act

Ans :

(A) The Check Clearing for the 21st Century Act
The "Check Clearing for the 21st Century Act," a federal law passed in 2004, was a significant step in modernizing check processing. This Act made it possible for a check recipient to create a digital copy or electronic image of a check (known as Check Truncation) and process it electronically, reducing processing times.

Oct/Nov 2009

27. Under the "Check Clearing for the 21st Century Act", what is the term for the digital or electronic image of a physical check that is created for electronic processing?
(A) Digital Voucher
(B) Electronic Draft
(C) E-Check
(D) Check Truncation

Ans :

(D) Check Truncation
The Act passed in 2004 made it so "a check recipient could make a digital copy/electronic image of a check known as Check Truncation) and then process that check electronically." This process of converting a physical paper check into a substitute electronic form for transmission and processing is a key aspect of the legislation.

May/June 2023

28. A small business owner in 2005 receives a payment by cheque. Instead of driving to the bank, she uses her bank's newly launched service to take a photo of the front and back of the cheque with her phone, and the funds are credited to her account within a day. This newfound convenience is a direct result of which development?
(A) The highly publicized invention of the smartphone by Apple Inc.
(B) The "Check Clearing for the 21st Century Act" enabling remote deposit capture.
(C) The establishment of the global SWIFT network for secure messaging.
(D) The recent introduction of PayPal for peer-to-peer online payments.

Ans :

(B) The "Check Clearing for the 21st Century Act" enabling remote deposit capture.
The scenario describes remote check deposit capture, a process made possible by the "Check Clearing for the 21st Century Act" of 2004. This law provided the legal framework for creating a digital image of a check (Check Truncation) for electronic processing, which drastically reduced the waiting period and eliminated the need to physically deposit the check.

Oct/Nov 2014

29. Which company introduced 'Google Wallet' in 2011, a mobile payment technology designed to rival traditional credit cards by allowing people to use their phones for purchases?
(A) Apple
(B) Samsung
(C) Google
(D) PayPal

Ans :

(C) Google
In 2011, Google introduced Google Wallet, a significant development in mobile payment technology. This service was designed to compete with credit cards by enabling users to make purchases directly with their phones for the first time. This innovation opened up a new level of freedom and convenience in the financial technology industry.

May/June 2019

30. In 2015, which bank took a leading role by introducing fingerprint authentication and Touch

NODIA

The assertion that new entrants revitalized the banking sector is true. The reason correctly explains why this happened: the new banks used technology and professional services to compete effectively. This created a sense of urgency, compelling public sector banks and older private banks to also adopt technology and improve services, thus revitalizing the industry.

Oct/Nov 2015

39. As Indian banks embraced business process automation and technology, what significant change occurred in their product offerings beyond normal banking products?

(A) They stopped offering basic savings and loan products.
(B) They limited their services to corporate clients only.
(C) They exclusively focused on agricultural credit.
(D) They started selling third-party products like mutual funds and insurance.

Ans :

(D) They started selling third-party products like mutual funds and insurance.
With the advent of technology and automation, Indian banks expanded their product range. Apart from normal banking products, they began offering third-party financial products, such as mutual funds and insurance, to their clients. This "single window selling" approach saved customers time and enabled the banks to enrich their customer relationships and revenue streams.

May/June 2017

40. The Reserve Bank of India (RBI) played a key part in the technological transformation of Indian banking. Which of the following was NOT mentioned as a landmark development facilitated by the RBI?

(A) Establishment of a government-owned software development company.
(B) Introduction of MICR-based cheque clearing.
(C) Modernization of payment services through ECS, RTGS, and NEFT.
(D) Issuing regulations on banking mechanization and computerization.

Ans :

(A) Establishment of a government-owned software development company.
The RBI's role included issuing regulations and recommendations for computerization, and facilitating key infrastructural developments. These landmarks include computerized inter-connectivity, MICR-based clearing, and modern payment systems like ECS, RTGS, and NEFT. The text does not mention the RBI establishing a government-owned software company; rather, it leveraged the booming private IT industry.

Oct/Nov 2024

41. In the context of Indian payment systems, what does the acronym RTGS stand for?

(A) Real Time General Settlement
(B) Rupee Transfer Gateway System
(C) Real Time Gross Settlement System
(D) Regulated Transaction Gateway Service

Ans :

(C) Real Time Gross Settlement System
RTGS, or Real Time Gross Settlement System, is mentioned as a significant landmark in the modernization of payment services and settlements in India. This system allows for the continuous, real-time settlement of fund transfers individually on a transaction-by-transaction basis, without netting. It is a crucial component of the country's large-value payment infrastructure.

May/June 2020

42. The evolution of banking in India has seen a noticeable shift from traditional banking to what form of banking?

(A) Channel-based banking
(B) Barter-based banking
(C) Commodity-based banking
(D) Unit-based banking

Ans :

(A) Channel-based banking
Over time, there has been a clear shift away from traditional, branch-centric banking towards channel-based banking. This modern approach involves providing services through a variety of electronic channels such as ATMs, credit cards, call centres, phone banking, and mobile banking apps. This reduces dependency on physical branches and improves customer convenience significantly.

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Consumers are no longer satisfied with a purely transactional relationship. They are looking for a "self-guided financial wellness solution" where the bank acts as a partner. This involves the institution using data to provide proactive notifications, relevant advice, and tools that help customers make well-informed decisions and improve their overall financial health.

Oct/Nov 2008

35. How are financial institutions leveraging technology to usher in a new age of personal financial wellness for their customers?

(A) By replacing all human advisors with fully automated systems to reduce operational costs.
(B) By sending generic, daily marketing emails about new products to all customers.
(C) By moving from reactive communication to proactive notifications and guided advice.
(D) By requiring customers to physically visit branches for all forms of financial advice and planning.

Ans :

(C) By moving from reactive communication to proactive notifications and guided advice.
The shift is from a reactive, transactional model to a proactive, relationship-based one. Institutions are using their wealth of data and technology to provide proactive notifications about spending habits, offer guided financial advice through apps, and ensure customers are always informed. This helps instill trust and actively guides customers toward better financial outcomes.

May/June 2006

36. What major event in 1969 made banking accessible to a larger, previously unbanked population in India?

(A) The establishment of the Reserve Bank of India.
(B) The economic liberalization of the economy.
(C) The introduction of the first computer in an Indian bank.
(D) The nationalization of major private sector banks.

Ans :

(D) The nationalization of major private sector banks.
The nationalization of major private sector banks in 1969 is cited as an important milestone in the history of the Indian banking system. This government action was pivotal in extending the reach of banking services beyond the elite and commercial sectors, making them accessible to the wider unbanked population across the country.

Oct/Nov 2017

37. The economic liberalization in the early 1990s ushered in an era of privatization in Indian banking. What was a key characteristic of the new private banks that were launched during this period?

(A) They focused exclusively on rural and agricultural lending.
(B) They avoided competition and focused on niche markets.
(C) They were tech-savvy and quick to leverage emerging technology.
(D) They continued to use traditional, manual banking methods.

Ans :

(C) They were tech-savvy and quick to leverage emerging technology.
The economic liberalization of the early 1990s led to the launch of a "new generation" of private banks. A defining feature of these new banks was that they were tech-savvy. They, along with foreign banks, were quick to leverage technology to woo customers with professional services, which in turn spurred competitive modernization across the entire sector.

May/June 2011

38. Assertion (A): The entry of new private and foreign banks in India during the 1990s helped revitalize the country's banking operations.
Reason (R): These new banks were highly competitive, leveraged emerging technology, and provided professional services, which prompted older banks to modernize.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

ID, making it easier and safer for customers to log into their mobile banking applications?
(A) Barclays Bank
(B) HDFC Bank
(C) State Bank of India
(D) Bank of America

Ans :

(D) Bank of America
The text explicitly mentions that "Bank of America introduced fingerprint authentication and Touch ID" in 2015. This was a significant step in enhancing both the security and user-friendliness of mobile banking applications, as it replaced the need for users to remember and type complex passwords, thereby streamlining the login process for its customers.

Oct/Nov 2006

31. What is the primary security advantage of EMV chip technology, which became a standard for card issuers in 2015?
(A) The information transmitted during a transaction is encrypted and tokenized.
(B) The embedded chip makes the physical card more durable and resistant to common physical damage.
(C) The chip securely stores the cardholder's photograph for instant visual verification by any merchant.
(D) The chip contains an active GPS tracker to help locate a lost or stolen card anywhere globally.

Ans :

(A) The information transmitted during a transaction is encrypted and tokenized.
EMV chips significantly enhance card security because the information they transmit is encrypted and tokenized for each transaction. This means that even if the transaction data is intercepted, it is useless to fraudsters because it's a one-time code. This is a major improvement over the static data stored on traditional magnetic stripe cards.

May/June 2012

32. Identify the correct pair of a technological advancement and the decade it was prominently introduced or popularized.
(A) Universal Credit Card - 1960s
(B) Online Banking (via phone line) - 1980s
(C) First ATM - 1980s
(D) Mobile Banking Revolution - 1990s

Ans :

(B) Online Banking (via phone line) - 1980s
The universal credit card was introduced in the 1950s. The first ATM was introduced in the 1960s. The mobile banking revolution, driven by smartphones, occurred in the 2000s. Online banking, which referred to accessing bank systems via a terminal and phone line, gained popularity and became a key convenience in the 1980s.

Oct/Nov 2010

33. The "new era in banking" is fundamentally changing the banking model based on evolving consumer expectations. What are the three key elements consumers now expect?
(A) Higher interest rates, more branches, and longer banking hours.
(B) Convenience, relevance, and ease.
(C) Stricter security, complex passwords, and detailed paper statements.
(D) Anonymity, offline access, and manual transaction processing.

Ans :

(B) Convenience, relevance, and ease.
The current major shift in the financial industry is largely driven by consumer expectations. Today's consumers demand convenience in accessing services, relevance in the communications they receive, and overall ease of use in their interactions with financial institutions. These expectations are forcing banks to fundamentally rethink and adapt their traditional banking models to stay competitive.

May/June 2009

34. What term is used to describe the solution modern consumers are seeking, where their financial institution proactively helps them stay informed and make better financial decisions?
(A) A self-guided financial wellness solution
(B) A purely transactional banking relationship focused on deposits and withdrawals.
(C) A reactive customer service model that only responds to direct complaints.
(D) A high-security data vault for storing personal identification documents.

Ans :

(A) A self-guided financial wellness solution

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Oct/Nov 2012

43. An Indian public sector bank, in the early 2000s, starts offering its customers insurance policies from a partner insurance company and units of various mutual funds. This strategy allows customers to manage multiple financial needs at their branch. This is an example of what trend that was enabled by the IT revolution in Indian banking?
(A) The shift to class banking from mass banking.
(B) The implementation of Real Time Gross Settlement (RTGS).
(C) The adoption of Automated Ledger Posting Machines (ALPMs).
(D) The move towards single window selling of third-party products.

Ans :

(D) The move towards single window selling of third-party products.
The scenario describes the practice of banks selling products from other financial entities, such as mutual funds and insurance. This is known as selling third-party products. This "single window selling" approach was a key outcome of the IT revolution, as it enabled banks to become financial supermarkets, thereby saving customers time and deepening relationships.

May/June 2010

44. Consider the following technological introductions in Indian banking:
1. Unified Payments Interface (UPI)
2. Electronic Clearing Services (ECS)
3. National Electronic Funds Transfer (NEFT)
4. Real Time Gross Settlement System (RTGS)

Which of the above are mentioned as significant landmarks in the modernization of payment services and settlements?
(A) 1 and 2 only
(B) 1, 2, 3 and 4
(C) 2, 3 and 4 only
(D) 1, 3 and 4 only

Ans :

(B) 1, 2, 3 and 4
The text lists several key developments that modernized India's payment systems. These include the establishment of MICR-based clearing, Electronic Clearing Services (ECS), Real Time Gross Settlement System (RTGS), National Electronic Funds Transfer (NEFT), and the more recent Unified Payments Interface (UPI). All four options listed are cited as important landmarks.

Oct/Nov 2025

45. What does the customer demand for 'AAA' access to their financial information signify?
(A) Access, Authentication, and Authorization.
(B) Accurate, Automated, and Authenticated.
(C) Anytime, Anywhere, and Anyway.
(D) Affordable, Accessible, and Actionable.

Ans :

(C) Anytime, Anywhere, and Anyway.
The 'AAA' access demanded by modern customers stands for 'anytime, anywhere, and anyway'. This reflects the expectation that customers should be able to access their money and financial information 24/7, from any location, and through any device or channel they prefer, prompting banks to implement flexible, network-agnostic wireless solutions.

May/June 2007

46. According to the current trend in banking, what is a primary challenge for virtual banks even with their sophisticated technology?
(A) Ensuring high-speed internet connectivity for all users across diverse geographic regions.
(B) Designing a visually appealing and modern user interface for their mobile applications.
(C) Complying with the complex web of international banking and data privacy regulations.
(D) Achieving customer satisfaction, which often requires a personalized human touch for complex issues.

Ans :

(D) Achieving customer satisfaction, which often requires a personalized human touch for complex issues.
Despite the seamless and virtual experience offered by technology, a key challenge remains: customer satisfaction. The text emphasizes that true satisfaction often requires a human touch. Virtual banks must recognize that technology is merely an aid, and the quality of the user experience, including providing empathetic support when needed, is paramount for success.

NODIA

banks is less intensive compared to their global counterparts.

Oct/Nov 2022

55. In the early days of computerization in Indian Public Sector Banks (PSBs) during the 1980s, what were the standalone machines used for computerization called?
(A) Core Banking Solutions (CBS)
(B) Mainframe Computers
(C) Personal Computers (PCs)
(D) Automated Ledger Posting Machines (ALPMs)

Ans :

(D) Automated Ledger Posting Machines (ALPMs)
The text traces the evolution of technology implementation in PSBs. It states that the journey started with standalone Automated Ledger Posting Machines (ALPMs) in the early days of computerization in the 1980s. This was the initial phase before graduating to more advanced systems like Total Branch Automation and eventually Core Banking Solutions (CBS).

May/June 2018

56. What is a direct benefit of implementing Core Banking Solutions (CBS) that enhances a bank's marketing capabilities?
(A) It centralizes customer data, improving the scope for cross-selling products.
(B) It reduces the need for physical security guards at branches by centralizing all data.
(C) It standardizes the working hours and holiday schedules of all bank branches nationwide.
(D) It completely eliminates all forms of operational risk through the full automation of processes.

Ans :

(A) It centralizes customer data, improving the scope for cross-selling products.
The implementation of Core Banking Solutions (CBS) centralizes customer data on a single platform. This centralization directly increases the availability of a comprehensive customer database across various products. As a result, it significantly enhances the bank's ability to identify opportunities for cross-selling and up-selling products to its existing customer base.

Oct/Nov 2016

57. In the context of a core banking database, if data is organized 'horizontally', what does this signify?
(A) Data is available on a customer-wise integrated basis.
(B) Data is organized chronologically by transaction date.
(C) Data is available on a product-wise standalone basis.
(D) Data is encrypted and stored in a decentralized ledger.

Ans :

(C) Data is available on a product-wise standalone basis.
The text explains the organization of data in core banking. A horizontally organized database means that customer data is available on a product-wise basis in a standalone manner. This is in contrast to a vertically organized database, where data is available on a customer-wise basis in an integrated fashion, providing a unified view.

May/June 2013

58. Due to the widespread adoption of ATMs, mobile banking, and online bill payment facilities, how is the primary role of bank branches evolving?
(A) They are transforming from transaction processing points into relationship management hubs.
(B) They are becoming significantly larger in size to accommodate more walk-in customers.
(C) They are being converted into secure data centers for the bank's central IT infrastructure.
(D) They are focusing solely on high-volume cash deposit and withdrawal services for businesses.

Ans :

(A) They are transforming from transaction processing points into relationship management hubs.
As routine transactions are increasingly handled by digital channels, the need for customers to visit a branch for these tasks has been obviated. Consequently, the role of the physical branch is shifting. Branches are transforming from being mere transaction processing points into specialized hubs focused on relationship management, advisory services, and complex product sales.

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Oct/Nov 2005

51. The ongoing shift in Indian commercial banking from "mass banking" to "class banking" is characterized by the introduction of what?

(A) Standardized products for all customers to ensure equality.
(B) Higher fees for basic banking services.
(C) Value-added and customized products.
(D) A reduction in the number of available banking channels.

Ans :

(C) Value-added and customized products.
The focus of Indian commercial banks is shifting from a 'mass banking' approach, which offers generic products to everyone, to a 'class banking' model. This new model is defined by the introduction of value-added and customized products and services that are tailored to the specific needs and profiles of different customer segments.

May/June 2024

52. The concept of commercial banks in India becoming a "one-stop Supermarket" implies that they are what?

(A) Focusing only on providing deposit and loan facilities.
(B) Merging with retail supermarkets to offer banking services.
(C) Specializing in a single, highly profitable financial product.
(D) Offering a wide range of financial products and services in one place.

Ans :

(D) Offering a wide range of financial products and services in one place.
The term "one-stop Supermarket" is a metaphor used to describe banks that offer a comprehensive suite of financial products and services beyond traditional banking. This includes third-party products like insurance and mutual funds, all available from a single point of contact, thereby enriching the customer relationship and providing greater convenience.

Oct/Nov 2018

53. A large corporation partners with a bank to install a small, unstaffed banking terminal in its office lobby. The terminal allows employees to perform tasks like cash withdrawal, balance inquiry, and fund transfers 24/7. This setup is a practical application of which modern banking concepts?

(A) The principles of mass banking combined with traditional manual operations.
(B) The traditional, staff-dependent, and physically located branch-based banking model.
(C) The 24/7 working concept enabled by technologies like ATMs and E-banking.
(D) The exclusive and dedicated use of telebanking for corporate client services.

Ans :

(C) The 24/7 working concept enabled by technologies like ATMs and E-banking.
The scenario describes a branch-like presence in a building's lobby without dedicated manpower, made possible by technology. This is a direct example of the 24/7 working concept, which utilizes technologies such as ATMs and E-banking to provide continuous access to banking services at a lower cost and in a more efficient manner.

May/June 2005

54. According to a PWC report, banks in India on aggregate spend between 1.5% and 2.0% of their annual revenue on technology, compared with a range of between 7.0% and 10% by global banks. What does this data primarily suggest?

(A) Indian banks are proven to be significantly more technologically advanced than global banks.
(B) Indian banks have a comparatively lower level of investment in technology relative to their revenue.
(C) Global banks are known to be highly inefficient in their overall technology spending.
(D) Indian banks focus more on infrastructure and less on customer-facing technology solutions.

Ans :

(B) Indian banks have a comparatively lower level of investment in technology relative to their revenue.
The data clearly shows a significant disparity in technology spending as a percentage of revenue. Indian banks' spending (1.5%-2.0%) is substantially lower than that of global banks (7.0%-10%). This indicates that, relative to their revenue, the investment in technology by Indian

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Oct/Nov 2019

47. From a customer's perspective, what is a key benefit of the trend towards paperless banking?

(A) Easy handling, storage, and retrieval of financial documents without fear of misplacing them.

(B) Increased security as there are no physical documents for a thief to steal from one's home.

(C) Receiving more frequent and targeted marketing materials from the bank via email and app notifications.

(D) The ability to write an unlimited number of physical cheques without incurring any service charges.

Ans :

(A) Easy handling, storage, and retrieval of financial documents without fear of misplacing them.

The digitization of transactions and data leads to paperless banking. For the customer, this translates into a significant convenience. They no longer have to manage bulky physical documents. Instead, financial documents and account statements can be easily handled, stored digitally, and retrieved whenever needed, without the risk of being misplaced or damaged.

May/June 2021

48. What is a significant challenge that non-branch channels, such as automated systems and touch screens, pose for technology-illiterate users?

(A) The high cost associated with using these advanced digital channels.

(B) The lack of human touch and potentially intimidating impersonal nature.

(C) The limited number of transaction types that can be performed without a teller.

(D) The requirement for advanced programming or coding skills to operate them.

Ans :

(B) The lack of human touch and potentially intimidating impersonal nature.

A major challenge of technology-enabled non-branch channels is the lack of human touch that characterized traditional banking. Impersonal interfaces like touch screens and automated answering systems can intimidate and overwhelm users who are not technologically savvy. This highlights the need for user-friendly design and accessible human support as a backup.

Oct/Nov 2011

49. To overcome the impersonal nature of technology and ensure a positive customer experience, what is imperative for banks to do?

(A) Phase out all digital channels to return to a traditional, branch-only banking service model.

(B) Tailor technology to user needs and provide humane backup support measures.

(C) Provide mandatory, intensive technology training courses for all new and existing bank customers.

(D) Only offer advanced technological solutions to younger, tech-savvy customer segments.

Ans :

(B) Tailor technology to user needs and provide humane backup support measures.

The text suggests that it is imperative for banks to ensure technology is tailored to the diverse needs of different customer segments. Furthermore, technology should be backed by suitable "humane" yet quick measures to provide support in the event of a failure or breakdown, ensuring no customer is left behind or overwhelmed by the system.

May/June 2014

50. To learn how to harness technology effectively for the benefit of newly urbanized populations, India is suggested to draw lessons from which country's experience?

(A) China

(B) United States

(C) Japan

(D) Germany

Ans :

(A) China

The text points out the challenge of integrating rural and urban populaces through channel technologies. It explicitly states that "India needs to learn its lessons from China," which has managed to rapidly urbanize its rural population and has been able to successfully harness technology for the benefit of these newly urbanized groups.

NODIA

Oct/Nov 2021

59. Which specific benefit of technology in retail banking allows banks to analyze data on spending habits and frequency to create tailored financial products?
(A) Increase in Efficiency
(B) Cost Reduction
(C) Accuracy
(D) Products

Ans :

(D) Products
The benefit categorized under 'Products' directly relates to the use of analytical tools. These tools enable retail banks to capture and analyze customer data, such as spending habits, frequency, and capacity. This analysis helps in identifying customer choices, which in turn allows banks to offer customized and differentiated products that cater to specific market segments.

May/June 2008

60. Which of the following is NOT listed as a direct benefit of technology in retail banking?
(A) Cost Reduction
(B) Increased regulatory oversight
(C) Accuracy
(D) Self-guided financial wellness

Ans :

(B) Increased regulatory oversight
The text lists several benefits of technology, including increased efficiency, cost reduction, accuracy, improved customer service, better products, easy communication, and enabling self-guided financial wellness. While technology must comply with regulations, increased regulatory oversight itself is not presented as a direct benefit of the technology for the bank or its customers.

Oct/Nov 2013

61. How does modern technology primarily contribute to cost reduction in retail banking?
(A) By significantly increasing the base salaries and performance bonuses of all bank employees.
(B) By making all basic banking services, including loans and credit cards, free for all customers.
(C) By reducing the need for large physical branches as customers transact via net-banking or mobile-banking.
(D) By investing heavily in expensive, large-scale traditional advertising campaigns on television and radio.

Ans :

(C) By reducing the need for large physical branches as customers transact via net-banking or mobile-banking.
A major contributor to cost reduction is the shift of customer transactions to digital channels like net-banking and mobile-banking. This convenience for customers reduces the need for banks to establish and maintain large-sized physical branches. Banks can instead open smaller branches or kiosks, especially in smaller towns, thereby increasing their footprint at a much-reduced cost.

May/June 2015

62. Which of the following is NOT mentioned as a feature of human intelligence that Artificial Intelligence (AI) may possess?
(A) Speech recognition
(B) Decision-making
(C) Visual perception
(D) Emotional empathy

Ans :

(D) Emotional empathy
The text provides examples of human intelligence features that AI can simulate, including speech recognition, decision-making, visual perception, and translation between languages. While AI can process and respond to language that expresses emotion, the text does not claim that AI itself possesses genuine emotional empathy, which remains a key differentiator of human intelligence.

Oct/Nov 2007

63. Who was the American computer and cognitive scientist credited with coining the term 'artificial intelligence' and being one of the founders of the discipline?
(A) John McCarthy
(B) Alan Turing
(C) John von Neumann
(D) Steve Jobs

Ans :

(A) John McCarthy
The text explicitly attributes the origin of the term 'artificial intelligence' to John McCarthy

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(C) The lack of sufficient data to train AI models.
(D) The difficulty in translating AI interfaces into regional languages.

Ans :

(B) The potential for increased unemployment as automation replaces labour.
The text explicitly mentions that in India, "there are concerns of unemployment." It notes the perception that when robots and automation enter the workplace, there will be a dearth of jobs in the future. Many economists and sociologists fear that AI will eventually take over most jobs, pushing up unemployment rates dramatically.

May/June 2024

98. How can Artificial Intelligence be utilized to provide "Wealth management for masses"?
(A) Through Bot Advisors that manage personalized portfolios based on user goals and risk appetite.
(B) By assigning a dedicated human financial advisor to every customer, regardless of their net worth.
(C) By offering a single, ultra-low-risk government bond fund to all retail customers.
(D) By providing free access to professional stock trading terminals in every bank branch.

Ans :

(A) Through Bot Advisors that manage personalized portfolios based on user goals and risk appetite.
AI enables wealth management to be scaled to the masses through "Bot Advisors." These automated systems can create and manage personalized investment portfolios for a large number of clients. They do this by taking into account individual factors like the client's lifestyle, appetite for risk, expected returns on investment, and other personal financial data.

Oct/Nov 2008

99. In the context of retail banking, the use of AI for anomaly detection is primarily focused on increasing the accuracy of which two critical functions?
(A) Customer onboarding processes and initial account opening procedures.
(B) Marketing campaign performance analysis and dynamic product pricing.
(C) Credit card fraud detection and anti-money laundering.
(D) Back-office data entry tasks and automated document verification.

Ans :

(C) Credit card fraud detection and anti-money laundering.
The text specifies that "Anomaly detection can be used to increase the accuracy of credit card fraud detection and anti-money laundering." These are two critical areas where AI excels by identifying unusual patterns and behaviors in vast datasets that may indicate illicit activities, thereby enhancing security and compliance for the bank.

May/June 2006

100. How can advanced AI techniques like deep learning and image/face recognition be specifically applied at ATMs to enhance security?
(A) To significantly speed up the mechanical cash dispensing mechanism.
(B) To provide customers with a personalized welcome message on the screen.
(C) To automatically print a customer's last ten transactions without a request.
(D) To detect and prevent frauds or crimes in real-time.

Ans :

(D) To detect and prevent frauds or crimes in real-time.
The text states that image/face recognition using real-time camera images and advanced AI techniques like deep learning can be used at ATMs. The specific purpose mentioned for this application is to "detect and prevent frauds/ crimes." This technology can identify suspicious behavior, unauthorized users, or other security threats at the terminal, enabling a proactive security response.

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May/June 2016

68. Who laid the conceptual foundation for Artificial Intelligence by publishing a paper on the possibilities of machines with true intelligence, long before its practical application became widespread?

(A) John McCarthy
(B) Bill Gates
(C) Charles Babbage
(D) Alan Turing

Ans :

(D) Alan Turing
The text credits Alan Turing with establishing the concept of Artificial Intelligence as a term. It states that when he published his paper on the possibilities of machines possessing true intelligence, it was the beginning of the idea, even though practical applications did not become common until much later in the late 1990s and beyond.

Oct/Nov 2009

69. Which U.S. government agency is credited with completing street mapping projects in the 1970s and producing intelligent personal assistants in 2003, predating popular assistants like Siri and Alexa?

(A) National Aeronautics and Space Administration (NASA)
(B) Central Intelligence Agency (CIA)
(C) Defense Advanced Research Projects Agency (DARPA)
(D) Federal Bureau of Investigation (FBI)

Ans :

(C) Defense Advanced Research Projects Agency (DARPA)
The US Department of Defence, through its agency DARPA, took an early interest in AI. DARPA is mentioned for its work on street mapping projects in the 1970s and, notably, for producing intelligent personal assistants in 2003. This early work was foundational for the personal assistant technology that became mainstream years later.

May/June 2023

70. Early AI research in the 1950s and 1960s, which focused on problem-solving and mimicking human reasoning, paved the way for which modern computer functionalities?

(A) Social media platforms and massively multiplayer online gaming.
(B) Decision support systems and smart search systems.
(C) Standard word processing and spreadsheet application software.
(D) Graphical user interfaces and the invention of the computer mouse.

Ans :

(B) Decision support systems and smart search systems.
The text states that this early AI research paved the way for the automation and formal reasoning seen in modern computers. Specifically, it led to the development of technologies like decision support systems and smart search systems, which are designed to complement and augment human abilities by providing intelligent assistance and information retrieval.

Oct/Nov 2018

71. A news report in The Economic Times mentioned that AI was among the domains witnessing the fastest adoption among industry sectors in India in 2018, with start-up funding growing by 108%. What does this information indicate?

(A) The Indian government was the sole financial investor and promoter of AI in the country.
(B) That there was a significant and rapidly growing commercial interest and investment in India's AI sector.
(C) AI adoption in India had already peaked in 2018 and was beginning to decline rapidly.
(D) AI was only being adopted in academic and research fields, not in commercial business sectors.

Ans :

(B) That there was a significant and rapidly growing commercial interest and investment in India's AI sector.
The 108% growth in funding and the rapid adoption by industry sectors clearly point to a burgeoning commercial ecosystem. This suggests strong interest from private players and a dynamic market where AI technologies were being actively developed and deployed for business applications, indicating a period of high growth and commercial activity.

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These automated advisors, or "Bot Advisors," achieve personalization by analyzing multiple factors. They assess the current market temperament and compare it against the individual user's specific financial goals and existing personal portfolio. Based on this comprehensive analysis, they can then offer tailored recommendations regarding investments like stocks and bonds to help users make better financial decisions.

Oct/Nov 2022

81. Which benefit of AI in banking and finance involves processing queries, finding information, and connecting users to services using natural language technology, thereby reducing human error?
(A) Underwriting
(B) Voice Assisted Banking
(C) Smart Wallets
(D) Data-driven lending decisions

Ans :

(B) Voice Assisted Banking
Voice Assisted Banking utilizes natural language technology to empower customers. This technology can process spoken queries to answer questions, locate information, and connect users with various banking services. By automating these interactions, it helps reduce human error, systemizes efficiency, and can even overcome language barriers, making banking more accessible.

May/June 2018

82. By utilizing AI systems that automate the underwriting process, insurance organizations become armed with what key advantage?
(A) More granular information from diverse data sources to empower their underwriting decisions.
(B) The ability to offer insurance coverage to every applicant, regardless of their associated risk profile.
(C) A significant reduction in the number of insurance products they are legally able to offer.
(D) A complete reliance on historical paper-based records rather than digital data.

Ans :

(A) More granular information from diverse data sources to empower their underwriting decisions.
The automation of underwriting through AI provides insurance organizations with a significant advantage. The AI systems can analyze vast and complex datasets, providing the organization with more detailed and granular information. This deeper level of insight empowers them to make more accurate and informed decisions regarding risk assessment and policy pricing.

NODIA

Oct/Nov 2016

83. What is the name of the passbook printing kiosk installed by the State Bank of India (SBI) that enables customers to update their passbooks hassle-free using barcode technology?
(A) SIA
(B) Eva
(C) Swayam
(D) IRA

Ans :

(C) Swayam
The text explicitly mentions that "SBI has installed Swayam (passbook printing kiosk) that uses barcode technology and allows customers to update their passbooks hassle-free." This is provided as an example of the industry's evolution from people-driven to machine-controlled services, where customers can perform tasks on their own using self-service kiosks.

May/June 2014

84. In the context of AI in banking, what are "Bank Stations"?
(A) Designated physical areas within a branch for AI-related customer queries.
(B) A network of AI-powered servers that manage the bank's core operations.
(C) A team of AI specialists who work at the bank's head office.
(D) A system of self-service terminals delivering a wide range of value-based e-services.

Ans :

(D) A system of self-service terminals delivering a wide range of value-based e-services.
Bank Stations are described as a system of self-service terminals where banks can incorporate artificial intelligence across the front, middle, and back offices. These terminals are designed to deliver a broad range of value-based e-services to consumers, such as bill payments and

(B) The proactive collaboration between banks and fintechs to drive innovation.
(C) A new and strict regulatory requirement imposed by the Reserve Bank of India.
(D) Banks moving away from technology and returning to manual paper-based processes.

Ans :

(B) The proactive collaboration between banks and fintechs to drive innovation.
This scenario perfectly illustrates the collaborative approach described in the text. Instead of viewing fintechs as a threat, progressive Indian banks are engaging with them through events like contests and hackathons and by sharing their APIs. This fosters a symbiotic relationship where banks gain access to innovation and fintechs get a platform for growth.

Oct/Nov 2006

77. The text mentions that India is home to vendors with a large global core banking market share. Which two of the top three core banking solution vendors are headquartered in India?
(A) Oracle and SAP
(B) IBM and Microsoft
(C) Infosys and TCS
(D) Temenos and Finastra

Ans :

(C) Infosys and TCS
The text highlights India's unique position as a global tech hub. It specifically states that "Two of the top three core banking solution vendors—Infosys and TCS—are headquartered in India." This underscores the country's significant contribution and leadership in the global financial technology software market, particularly in core banking systems.

May/June 2021

78. Which of the following is listed as a primary reason ("Why AI in Banking Industry?") for adopting Artificial Intelligence?
(A) To increase the complexity of banking operations.
(B) To reduce the number of personalized solutions available to customers.
(C) To decrease the productivity of employees.
(D) To minimize the chances of fraud and scam.

Ans :

(D) To minimize the chances of fraud and scam.
The text provides a list of reasons for AI adoption in banking. Among them is the goal "To minimize the chances of fraud and scam." AI systems are highly effective at analyzing vast amounts of data in real-time to detect patterns indicative of fraudulent activity, making them a critical tool for enhancing security.

Oct/Nov 2010

79. What is Bank-Chain, which was announced by SBI in February 2017?
(A) A consortium of banks, NBFCs, and NPCI for exploring and implementing blockchain solutions.
(B) A new type of cryptocurrency launched by Indian banks.
(C) A physical chain of interconnected bank branches.
(D) A proprietary software for securing inter-bank communications.

Ans :

(A) A consortium of banks, NBFCs, and NPCI for exploring and implementing blockchain solutions.
Bank-Chain is described as a 30+ member consortium led by SBI. It includes other banks, Non-Banking Financial Companies (NBFCs), and the National Payments Corporation of India (NPCI). Its purpose is to function as a community for exploring, building, and implementing solutions based on blockchain technology to address various challenges in the banking sector.

May/June 2005

80. How do AI-powered automated financial advisors and planners provide personalized financial services?
(A) By assigning a dedicated human financial advisor to every single customer, regardless of their net worth.
(B) By analyzing market data against a user's goals and portfolio to offer recommendations.
(C) By offering a single, standardized, ultra-low-risk government bond fund to all retail customers.
(D) By investing user funds exclusively in government bonds to eliminate all potential market risk.

Ans :

(B) By analyzing market data against a user's goals and portfolio to offer recommendations.

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(A) AI serves as the distributed digital ledger, and Blockchain is the analytical processing engine.
(B) Both AI and Blockchain perform the exact same primary function of securely storing transactional data.
(C) Blockchain is the digital ledger for storing data, and AI is the brain or engine that enables decision-making on that data.
(D) AI is used to mathematically create the individual blocks, and Blockchain is used to create the chain.

Ans :

(C) Blockchain is the digital ledger for storing data, and AI is the brain or engine that enables decision-making on that data.
The text describes a symbiotic relationship. Blockchain technology provides the distributed, decentralized, and secure digital ledger to store encrypted information (the 'block' and 'chain'). Artificial Intelligence then acts as the 'brain' or 'engine' that analyzes the data collected and stored on the blockchain to enable intelligent decision-making and data analysis.

May/June 2010

90. The FICO Falcon fraud assessment system, a successful example of data analysis in banking, is based on what underlying technology?
(A) A neural network shell.
(B) A blockchain-based smart contract.
(C) A relational database management system.
(D) An Automated Ledger Posting Machine.

Ans :

(A) A neural network shell.
The text provides the FICO Falcon fraud assessment system as a specific example of successful data analysis implementation for fraud detection. It explicitly states that this system is "based on a neural network shell," which is a form of artificial intelligence. This technology has evolved to include sophisticated deep learning-based AI systems today.

Oct/Nov 2024

91. What is the name of the AI-based chatbot developed by HDFC Bank, which was built by the Bengaluru-based company Senseforth?
(A) SIA
(B) IRA
(C) Swayam
(D) Eva

Ans :

(D) Eva
The text clearly states that "HDFC bank has developed an AI-based chatbot called 'Eva' (Electronic Virtual Assistance), built by Bengaluru-based Senseforth." This chatbot is highlighted for its impressive performance, having addressed millions of queries from a large number of unique users in a very short response time, showcasing the power of AI in customer service.

May/June 2017

92. ICICI Bank was among the first in India to deploy a technology that emulates human actions to automate repetitive, high-volume business tasks. What is this technology called?
(A) Blockchain
(B) Software Robotics
(C) Core Banking Solution
(D) Data Mining

Ans :

(B) Software Robotics
ICICI Bank's initiative involved deploying "software robotics" in over 200 business processes. The text describes this technology as emulating human actions to automate and perform repetitive, high-volume, and time-consuming tasks. This is also commonly known as Robotic Process Automation (RPA), a key technology for improving operational efficiency in the back office.

Oct/Nov 2005

93. After conducting its "Code For Bank" national hackathon, State Bank of India (SBI) adopted an AI-based solution developed by the winning team, Chapdex. What is the specific function of this innovative solution?
(A) It automates the entire passbook printing process using advanced barcode technology.
(B) It serves as an intelligent chatbot designed to answer NRI customer banking queries.
(C) It captures and analyzes the facial expressions of customers to understand their behavior.
(D) It uses advanced software robotics to automate various repetitive back-office processes.

NODIA

government e-services, acting as comprehensive self-service points.

Oct/Nov 2007

85. Based on the provided diagram illustrating the features of a well-designed chatbot, which feature specifically refers to the chatbot's ability to remember customer preferences and use order history to suggest products and cross-sell effectively?
(A) 24/7
(B) Real language
(C) Sales booster
(D) Simple interface

Ans :

(C) Sales booster
The "Sales booster" feature in the diagram is described as being "Capable of remembering customer preferences and uses order history to suggest products... and cross-sells effectively." This capability goes beyond simple query resolution and positions the chatbot as a proactive sales and marketing tool that learns from past interactions to drive business growth.

May/June 2025

86. What is the primary function of a chatbot or virtual assistant, such as SBI's Intelligent Assistant (SIA), in the banking context?
(A) To independently review and approve large-value corporate loans.
(B) To simplify interaction between humans and computers for everyday banking tasks.
(C) To physically count, verify, and deposit cash from customers.
(D) To design the bank's official marketing and advertising campaigns.

Ans :

(B) To simplify interaction between humans and computers for everyday banking tasks.
Chatbots and virtual assistants are new tools designed specifically to simplify the interaction between humans and computer systems. In banking, they act as intelligent assistants, like SBI's SIA, helping customers with everyday banking tasks and resolving queries. They are replacing traditional front-desk interactions with digitized and customized experiences for users.

NODIA

Oct/Nov 2019

87. A bank is experiencing long queues at its customer service desk, with most queries being simple and repetitive, such as "What is my account balance?" or "How do I apply for a debit card?". To reduce wait times and improve efficiency, which AI-led tool would be the most suitable and effective solution to implement?
(A) A predictive maintenance system for ATMs.
(B) An AI-based fraud detection algorithm.
(C) A blockchain-based system for cross-border remittances.
(D) A chatbot or virtual assistant on its website and mobile app.

Ans :

(D) A chatbot or virtual assistant on its website and mobile app.
The problem involves handling a high volume of simple, repetitive customer queries. A chatbot is the ideal AI tool for this purpose. It can provide instant, 24/7 responses to such common questions, freeing up human agents to handle more complex issues and significantly reducing customer wait times, thereby improving overall efficiency and satisfaction.

May/June 2009

88. Which of the following is NOT mentioned as an AI-driven segment or application being introduced in ATMs?
(A) Dispensing foreign currency.
(B) Machine learning for cybersecurity.
(C) Facial recognition for security.
(D) Predictive maintenance of ATM machines.

Ans :

(A) Dispensing foreign currency.
The text lists several new segments where AI is being introduced in ATMs. These include machine learning for cybersecurity, machine vision ATM cameras, facial recognition for security and customer experience, predictive maintenance, and forecasting ATM cash demand. The ability to dispense foreign currency is a logistical feature, not an AI-driven application mentioned in this context.

Oct/Nov 2011

89. In the relationship between Blockchain Technology and Artificial Intelligence in banking, how are their roles described?

May/June 2007

72. Despite having a large pool of STEM talent and a growing population of youngsters, India's AI industry lags far behind which two countries in terms of investment?
(A) US and China
(B) Germany and Japan
(C) United Kingdom and France
(D) Canada and Australia

Ans :

(A) US and China
The text acknowledges India's strengths, such as its STEM talent pool, which are favorable for AI development. However, it explicitly states that "India lags far behind countries like US and China in terms of investment." This highlights a key challenge for India in competing globally in the race for AI dominance.

Oct/Nov 2025

73. According to the text, AI-focused start-ups in major Indian cities are working in several key areas. Which of the following is NOT mentioned as one of these areas?
(A) E-commerce
(B) Fintech
(C) Aerospace engineering
(D) Healthcare

Ans :

(C) Aerospace engineering
The text lists several domains where Indian AI start-ups are active, including e-commerce, healthcare, edtech (education technology), and fintech (financial technology). While AI has applications in aerospace, this specific field is not mentioned in the provided list of examples of the current focus areas for these promising nascent companies in India.

May/June 2012

74. What is the full name of IDRBT, the academic and research unit of the RBI that studies opportunities and challenges in new banking technology areas?
(A) Institute for Development and Research in Banking Technology
(B) Institute for Digital Research in Banking and Transactions
(C) Indian Directorate for Research in Banking Technology
(D) Indian Depository for Banking and Technology Research

Ans :

(A) Institute for Development and Research in Banking Technology
The text identifies the RBI's academic/research unit as the Institute of Development and Research in Banking Technology (IDRBT). This institution plays a crucial role by continuously studying new technological areas, such as blockchain, to understand their potential impact and challenges for the Indian banking sector, guiding policy and industry adoption.

Oct/Nov 2014

75. How is the relationship between progressive Indian banks (like ICICI, Axis, HDFC) and fintechs characterized in the text?
(A) As an uneasy and hostile relationship with no collaboration or communication between them.
(B) As a relationship where banks acquire all fintechs to eliminate potential market competition.
(C) As a relationship strictly limited by regulatory restrictions, preventing any meaningful interaction.
(D) As a proactive and collaborative relationship involving contests, hackathons, and API sharing.

Ans :

(D) As a proactive and collaborative relationship involving contests, hackathons, and API sharing.
In contrast to the uneasy relationship seen in many developed markets, the text highlights that progressive Indian banks have been proactive in their engagement with fintechs. They actively foster innovation by creating contests and hackathons, and in some cases, even share their APIs (Application Programming Interface) to facilitate collaboration and co-creation of new solutions.

May/June 2019

76. A prominent private bank in India launches a "Fintech Innovation Challenge," inviting startups to build new applications using the bank's open Application Programming Interfaces (APIs). The winners receive funding and a partnership contract. This initiative is a prime example of what trend in the Indian banking industry?
(A) The nationalization of technology companies by major private sector banks.

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Ans :

(C) It captures and analyzes the facial expressions of customers to understand their behavior.
The text specifies that the winning solution from the hackathon, developed by Chapdex and adopted by SBI, is an AI-based tool that "captures the facial expressions of the customers." The purpose of this technology is to help the bank in understanding the behavior of its customers, providing a novel way to gather customer feedback and sentiment.

May/June 2020

94. HDFC Bank's chatbot "Eva" has addressed over 2.7 million customer queries and can provide answers in less than 0.4 seconds. What primary benefit of AI in customer service is demonstrated by this performance?
(A) The ability to provide complex, personalized financial and investment advice.
(B) The ability to completely replace all human employees in customer-facing roles.
(C) The significant improvement of back-office processes like loan underwriting and approval.
(D) The enhancement of speed, efficiency, and scalability in handling customer interactions.

Ans :

(D) The enhancement of speed, efficiency, and scalability in handling customer interactions.
The statistics for "Eva" highlight its capacity to handle a massive volume of queries (2.7 million) with incredible speed (under 0.4 seconds). This demonstrates the core AI benefits of efficiency and scalability in customer support. An AI chatbot can serve thousands of customers simultaneously, something a human team cannot do, drastically improving response times.

Oct/Nov 2015

95. Axis Bank launched an AI and NLP (Natural Language Processing) enabled app for conversational banking. What is the primary purpose of this app?
(A) To help consumers with financial and non-financial transactions and answer FAQs.
(B) To experiment with in-store physical robotic applications and hardware.
(C) To capture and analyze the facial expressions of customers visiting the branch.
(D) To deploy software robotics (RPA) in various back-office administrative functions.

Ans :

(A) To help consumers with financial and non-financial transactions and answer FAQs.
The text states that Axis Bank's AI and NLP enabled app is designed for "conversational banking." Its functions are to assist consumers with both financial and non-financial transactions, provide answers to Frequently Asked Questions (FAQs), and help them get in touch with the bank for loans, all through a conversational interface.

May/June 2013

96. One of the challenges facing India's AI development is that "The sequential system of education and work is outdated in today's economic environment as the nature of jobs shifts rapidly and skills become valuable and obsolete in a matter of years." What problem does this statement highlight?
(A) The significant lack of public and private funding for fundamental AI research and development.
(B) The need for continuous learning and reskilling to keep pace with technological change.
(C) The widespread societal fear of mass unemployment due to workplace automation.
(D) The primary focus of most AI applications on consumer goods rather than industrial use.

Ans :

(B) To provide superior, secure, and affordable services through technology to maintain a competitive advantage.
This statement points to the rapid obsolescence of skills in an AI-driven economy. A traditional, sequential model of "educate once, then work for life" is no longer viable. It underscores the challenge and necessity of creating a system that supports continuous learning, upskilling, and reskilling for the workforce to remain relevant as job requirements evolve rapidly.

Oct/Nov 2021

97. What is a primary concern in India regarding the large-scale implementation of AI and automation in the workplace?
(A) The high cost of electricity required to run AI systems.
(B) The potential for increased unemployment as automation replaces labour.

NODIA

(1927-2011). It identifies him as an American computer scientist and cognitive scientist who not only coined the term but was also one of the foundational figures in establishing AI as a formal discipline of study and research.

May/June 2025

64. According to the text, what are the two fundamental ideas that generally constitute artificial intelligence?
(A) Building robots and creating virtual reality.
(B) Studying human brain processes and representing them through machine learning.
(C) Developing faster computer hardware and increasing data storage capacity.
(D) Automating repetitive tasks and reducing manpower.

Ans :

(B) Studying human brain processes and representing them through machine learning.
Artificial intelligence is described as being based on two fundamental concepts. The first is the study of the human brain to understand thought processes. The second is the application of this understanding to represent those processes through technologies like machine learning, allowing machines to learn and perform tasks in an intelligent manner, mimicking human cognition.

Oct/Nov 2020

65. When a machine with Artificial Intelligence (AI) is able to learn from experience, just like a human, this capability is specifically called what?
(A) Automation
(B) Machine learning
(C) Data processing
(D) Robotics

Ans :

(B) Machine learning
The text states, "Just like humans, machines with AI can also learn from experience. It is called machine learning." This is a core concept within AI where algorithms are used to parse data, learn from it, and then make a determination or prediction about something in the world, contrasting with systems that only follow explicitly programmed instructions.

May/June 2022

66. What is the fundamental difference between Automation and Artificial Intelligence (AI)?
(A) Automation performs tasks automatically, while AI attempts to mimic human intelligence.
(B) Automation primarily uses hardware components, while AI exclusively uses software programs.
(C) Automation is a relatively new concept, while AI has been in practical use for centuries.
(D) Automation is mainly used in manufacturing, while AI is only used in the finance industry.

Ans :

(A) Automation performs tasks automatically, while AI attempts to mimic human intelligence.
Automation is about making a system perform a task automatically, often a repetitive one, to boost efficiency and reliability. AI, on the other hand, is a broader science and engineering discipline focused on creating machines that are intelligent—capable of thinking, learning, and making decisions in a way that mimics or even surpasses human intelligence.

Oct/Nov 2023

67. A bank uses two systems. System A automatically processes and clears all cheques received before 3 PM each day. System B analyzes a customer's transaction history and social media data to assess their credit risk for a loan. How would these two systems be best classified?
(A) Both are examples of Automation.
(B) Both are examples of Artificial Intelligence.
(C) System A is Automation, and System B is Artificial Intelligence.
(D) System A is Artificial Intelligence, and System B is Automation.

Ans :

(C) System A is Automation, and System B is Artificial Intelligence.
System A performs a predefined, repetitive task (clearing cheques) without requiring intelligence, which is a classic example of automation. System B, however, involves analyzing varied data, learning from it, and making a complex judgment (assessing credit risk), which is a characteristic of Artificial Intelligence. AI mimics human-like decision-making, while automation follows set rules.

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CHAPTER 14

Recovery of Retail Loans

Oct/Nov 2015

1. According to the text, which factor is most important in developing the strategy behind the launch of a new asset product by a financial institution?
(A) The prevailing interest rate environment
(B) The risk appetite of the institution
(C) The marketing and distribution capabilities of the bank
(D) The technological infrastructure for loan processing

Ans :

(B) The risk appetite of the institution
The strategy for launching an asset product is developed around many factors, with the risk appetite of the financial institution being the most important. A bank's willingness to accept risk fundamentally shapes the design, pricing, and target market of its loan products, influencing its overall lending strategy and potential for profitability and growth in the asset portfolio.

May/June 2012

2. In the past decade, what was the approximate retail asset portfolio size as a percentage of the total asset portfolio for top private sector banks?
(A) Exceeding 50%
(B) In the range of 20%
(C) In the range of 30%
(D) Below 25%

Ans :

(A) Exceeding 50%
New generation private sector banks aggressively expanded their retail asset portfolios. The retail asset portfolio of at least one of the top private sector banks exceeded 50% of its total asset portfolio. This highlights the significant focus these banks placed on retail lending as a key driver for business growth and revenue generation during that period.

Oct/Nov 2023

3. What is the average retail portfolio size for public sector banks mentioned in the text?
(A) Exceeding 50%
(B) Around 40%
(C) In the range of 30%
(D) Below 20%

Ans :

(C) In the range of 30%
While public sector banks also expanded their retail asset portfolios significantly, it was not to the same extent as private sector banks. Their retail portfolio size, on an average, was in the range of 30%. This indicates a more conservative but still substantial involvement in the retail lending segment compared to their private sector counterparts.

May/June 2005

4. For which types of retail assets is the portfolio considered more vulnerable to default due to their unsecured nature?
(A) Housing Loans and Educational Loans
(B) Vehicle Loans and Gold Loans
(C) Loans against Property and Term Deposits
(D) Personal Loans and Credit Card Receivables

Ans :

(D) Personal Loans and Credit Card Receivables
The unsecured nature of assets like Personal Loans and Credit Card Receivables makes the portfolio more vulnerable to default. In these cases, there is no underlying collateral for the bank to proceed against easily, leaving them with the option of filing money suits for recovery, which can be a more challenging and prolonged process.

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Oct/Nov 2016

5. In which loan segments was rescheduling primarily used as a strategy to avoid slippages into the Non-Performing Asset (NPA) category?
(A) Personal Loans and Credit Card Receivables
(B) Gold Loans and Vehicle Loans

(C) The loan is not backed by any form of tangible security that can be enforced by the bank.
(D) The loan is guaranteed by a third party but does not have any primary tangible security.

Ans :

(A) The realisable value of the security is not more than 10% of the outstanding exposure.
An 'unsecured exposure' is specifically defined as an exposure where the realisable value of the security, as assessed by the bank or approved valuers, is not more than 10% of the outstanding exposure, ab-initio. This definition includes all funded and non-funded exposures and considers only tangible security properly discharged to the bank.

Oct/Nov 2015

43. Based on the text regarding standard asset provisioning, what is the provision rate for advances to the Commercial Real Estate (CRE) Sector?
(A) 0.25%
(B) 0.75%
(C) 0.40%
(D) 1.00%

Ans :

(D) 1.00%
The provided text explicitly lists the provisioning rates for various categories of standard assets. For advances made to the Commercial Real Estate (CRE) Sector, the specified general provision rate is 1.00%. This higher rate reflects the perceived risk associated with lending to the commercial real estate sector compared to other standard assets.

May/June 2012

44. What is the standard asset provisioning rate for housing loan accounts sanctioned on or after 7th June 2017?
(A) 0.40%
(B) 0.25%
(C) 0.75%
(D) 1.00%

Ans :

(B) 0.25%
For housing loan accounts that were sanctioned on or after the specific date of 7th June 2017, a standard asset provision of only 0.25% is attracted. This rate is lower than the general rate for "all other loans," indicating a specific regulatory treatment for this segment of the housing loan portfolio from that date onwards.

Oct/Nov 2023

45. What is the fundamental principle around which the debt collection policy of a bank is built, as stated in the preamble?
(A) Maximizing recovery at all costs
(B) Strict adherence to timelines
(C) Dignity and respect to customers
(D) Prioritizing high-value accounts

Ans :

(C) Dignity and respect to customers
The preamble to the bank's recovery policy explicitly states that the debt collection policy is built around the core principles of dignity and respect for customers. This foundational concept guides the entire recovery process, ensuring that banks do not follow policies that are unduly coercive and instead focus on courtesy, fair treatment, and persuasion.

May/June 2005

46. What is the stated aim of a bank's Security Repossession Policy?
(A) To deprive the borrower of the property whimsically.
(B) To teach a lesson to defaulting borrowers.
(C) To acquire assets for the bank at a low cost.
(D) To recover dues in the event of default.

Ans :

(D) To recover dues in the event of default.
The Security Repossession Policy is explicitly aimed at the recovery of dues from the borrower in the event of a default. It is not intended to be a tool for the whimsical deprivation of the borrower's property. The policy emphasizes fairness and transparency in the processes of repossession, valuation, and realization of the security.

Oct/Nov 2016

47. According to the general guidelines for recovery, between which hours should a bank's representatives normally contact a borrower?
(A) Between 0700 hrs and 1900 hrs
(B) Between 0900 hrs and 1700 hrs
(C) Between 0800 hrs and 2000 hrs
(D) At any time, as long as the borrower is available.

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used for specific types of loans, such as small value gold loans, where the full settlement is made at maturity.

May/June 2014

10. In a Fixed Instalment Loan, what is the characteristic of the interest servicing burden?
(A) The interest servicing burden is more in the initial stages.
(B) The interest servicing burden is uniform throughout the loan tenure.
(C) The interest servicing burden is lower in the initial stages.
(D) The interest servicing burden is more in the final stages.

Ans :

(A) The interest servicing burden is more in the initial stages.
In a fixed instalment loan, the loan amount is divided into equal monthly principal instalments. However, the borrower must also pay the entire interest accrued during each period. Since the outstanding principal is highest at the beginning, the interest component is also highest, making the overall interest servicing burden heavier in the initial stages.

Oct/Nov 2020

11. How do the principal and interest components of an Equated Monthly Installment (EMI) change over the loan tenure?
(A) Both principal and interest components remain constant.
(B) The principal component decreases, and the interest component increases.
(C) Both principal and interest components decrease over time.
(D) The principal component increases, and the interest component decreases.

Ans :

(D) The principal component increases, and the interest component decreases.
In an EMI-based repayment, the total monthly payment is constant. However, the composition of the EMI changes over time. Initially, the interest component is larger, and the principal component is smaller. As the loan is repaid and the outstanding principal reduces, the interest component decreases, and consequently, a larger portion of the EMI goes towards principal repayment.

May/June 2007

12. What does the variable `r` represent in the formula for calculating EMI?
(A) The annual rate of interest.
(B) The rate of interest per month.
(C) The total number of repayments.
(D) The total interest payable.

Ans :

(B) The rate of interest per month.
In the standard EMI calculation formula

$$\text{EMI} = \frac{\text{P} \times r \times (1+r)^n}{(1+r)^n - 1}$$

The variable `r` represents the rate of interest per month. It is derived from the annual interest rate by dividing it by 12 and then by 100 to convert it into a monthly decimal value for use in the formula.

Oct/Nov 2013

13. When a bank sanctions a loan, what is it expected to provide to the borrower along with the EMI details?
(A) A copy of the bank's recovery policy
(B) A list of recovery agents
(C) The amortization schedule
(D) A certificate of loan approval

Ans :

(C) The amortization schedule
Banks are expected to provide the amortization schedule to borrowers when advising the loan sanction. This schedule details the breakdown of each EMI into its principal and interest components over the entire tenure of the loan. It offers transparency and helps the borrower understand how their loan principal will be reduced with each payment made.

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May/June 2022

14. In the event of an increase in a floating interest rate, what are the two options for adjusting the loan repayment?
(A) Increase the loan principal or decrease the loan tenor.
(B) Decrease the EMI or increase the loan principal.
(C) Decrease the loan tenor or pay a one-time charge.
(D) Increase the EMI or increase the loan tenor.

Ans :

(D) Increase the EMI or increase the loan tenor.

(C) Housing Loans and Educational Loans
(D) SME Loans and Agricultural Loans

Ans :

(C) Housing Loans and Educational Loans
Rescheduling was done in a major way for housing loans and educational loans. This strategy was employed to prevent these accounts from slipping into the Non-Performing Asset (NPA) category. By extending the repayment tenor, banks aimed to ease the burden on borrowers and maintain the asset's performing status, thereby avoiding loan loss provisions.

May/June 2019

6. What is a moratorium or holiday period in the context of a retail loan?
(A) A period where only principal is repaid and interest payments are temporarily waived.
(B) A waiting period before EMI begins, where no principal repayment is required.
(C) A period where the entire loan amount is disbursed to the borrower in a single transaction.
(D) A discount period on the interest rate, offered by the bank at the start of the loan term.

Ans :

(B) A waiting period before EMI begins, where no principal repayment is required.
A moratorium or holiday period is a specific time allowed for the borrower during the loan term when they are not required to make any principal repayments. It functions as a waiting period before the repayment through Equated Monthly Installments (EMIs) commences, giving the borrower time to get financially equipped for repayments.

Oct/Nov 2011

7. Under what condition is the servicing of interest during the holiday period not insisted upon for educational loans?
(A) It is always insisted upon for all loan types without any exception.
(B) It is not insisted upon only if the loan amount is below a certain threshold.
(C) The provision to waive interest servicing is not specific to educational loans.
(D) It is not insisted upon as a special provision for educational loans.

Ans :

(D) It is not insisted upon as a special provision for educational loans.
Generally, the interest accrued during the holiday period needs to be serviced by the borrower. However, an exception is made for educational loans, where this requirement is not insisted upon. This special consideration acknowledges the student's lack of income during their study period, making the loan structure more manageable for them until they secure employment.

May/June 2025

8. What is the maximum holiday period allowed for housing loans in the case of construction and purchase, respectively?
(A) 18 months for construction and 3 months for purchase.
(B) 12 months for construction and 6 months for purchase.
(C) 24 months for construction and 6 months for purchase.
(D) 12 months for construction and 3 months for purchase.

Ans :

(A) 18 months for construction and 3 months for purchase.
For housing loans, a specific holiday period is permitted based on the purpose. A period of up to 18 months is allowed in the case of house construction, while a shorter period of 3 months is allowed in the case of purchasing a ready-built house or flat. This accommodates the different timelines involved in each scenario.

Oct/Nov 2008

9. Which type of repayment involves a single payment of the loan amount with interest at the end of the loan period?
(A) Fixed instalment loan
(B) Equated Monthly Installment (EMI)
(C) Bullet payment
(D) Step-up repayment

Ans :

(C) Bullet payment
A bullet payment is a repayment method where the entire loan amount, along with the accrued interest, is paid in a single lump sum at the very end of the loan period. This method is typically

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(C) An approach of care, concern, and customer orientation to support the borrower.
(D) Engaging third-party recovery agents immediately to apply pressure for payment.

Ans :

(C) An approach of care, concern, and customer orientation to support the borrower.
For genuine defaults, the bank's recovery approach should be one of care and concern, adopting a customer-oriented perspective. This is because the setbacks are often temporary, and by providing support and time, the bank can help the customer overcome the problem. This approach helps in retaining what are otherwise good and valuable clients.

May/June 2023

20. Which of the following is a defining characteristic of a 'Wilful Default'?
(A) The default is due to unforeseen medical expenses impacting the borrower's finances.
(B) The default is due to a sudden and unexpected business setback affecting cash flow.
(C) The borrower's ability to pay is affected, but their intention to repay remains intact.
(D) The default is intentional, deliberate, and calculated with a malafide intention.

Ans :

(D) The default is intentional, deliberate, and calculated with a malafide intention.
A default is categorized as wilful only if it is determined to be intentional, deliberate, and calculated. This involves a malafide intention from the borrower, who deliberately fails to pay the EMIs with the objective of delaying payments and causing difficulties for the bank, despite having the capacity to honor the obligations.

Oct/Nov 2012

21. Which of the following actions by a borrower would be considered a 'Wilful Default'?
(A) Failing to pay an EMI on the due date because of a sudden and verified job loss.
(B) Requesting a loan rescheduling from the bank due to a temporary business downturn.
(C) Disposing of or removing movable fixed assets given as security without the bank's knowledge.
(D) Experiencing a reduced disposable income due to unforeseen and necessary family expenses.

Ans :

(C) Disposing of or removing movable fixed assets given as security without the bank's knowledge.
Disposing of or removing movable fixed assets or immovable property that was provided as security for a term loan, without the knowledge of the bank or lender, is explicitly listed as an event that constitutes wilful default. This action directly undermines the security of the loan and demonstrates a clear malafide intention on the part of the borrower.

May/June 2006

22. Identify the incorrect statement regarding the penal measures against wilful defaulters.
(A) Lenders are permitted to initiate criminal proceedings against identified wilful defaulters.
(B) The bank can only proceed against the principal debtor and is barred from proceeding against the guarantor.
(C) No additional credit facilities should be granted by any bank or FI to listed wilful defaulters.
(D) Companies with identified siphoning of funds should be debarred from receiving institutional finance.

Ans :

(B) The bank can only proceed against the principal debtor and is barred from proceeding against the guarantor.
This statement is incorrect. The text explicitly states that the bank can proceed against the guarantor, if any, along with the principal debtor by virtue of the Contract Act. The guarantor's liability is co-extensive with that of the principal debtor, making them equally responsible for the repayment of the defaulted loan amount.

Oct/Nov 2017

23. A covenant should be incorporated in loan agreements to prevent a borrowing company from inducting a person on its board if that person's name appears on which list?
(A) The list of bank's high-net-worth individuals
(B) The list of Politically Exposed Persons (PEPs)
(C) The list of directors of competitor companies
(D) The list of Wilful Defaulters

Ans :

(D) The list of Wilful Defaulters

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For a loan with a floating rate of interest, any change in the rate necessitates adjustments. The changes can be made either by increasing the EMI amount while keeping the loan tenor the same, or by keeping the EMI constant and extending the loan tenor to accommodate the higher interest cost over a longer period.

Oct/Nov 2009

15. Which of the following is considered the most important fundamental requirement for a sustainable good relationship between a bank and a borrower?

(A) The payment of interest and instalments as per the mutually agreed terms and schedule.
(B) The borrower providing complete and accurate information about the security offered.
(C) The credit being utilized strictly for the intended purpose as per the sanction terms.
(D) Neither party taking unilateral steps that could jeopardize the ongoing relationship.

Ans :

(A) The payment of interest and instalments as per the mutually agreed terms and schedule.
Among the fundamental requirements for a good borrower-lender relationship, the timely payment of interest and instalments/principal as per the agreed terms is the most important. Adherence to the repayment schedule is critical because failure to do so directly translates into a default, which can escalate from a simple overdue to an NPA.

May/June 2016

16. A steep change of how many basis points in interest rates is mentioned as sufficient to change the equilibrium of repayments for home loans?

(A) 50 to 100 basis points
(B) 200 to 300 basis points
(C) 100 to 150 basis points
(D) 150 to 200 basis points

Ans :

(B) 200 to 300 basis points
The text states that steep changes in interest rates, in the range of 200 to 300 basis points, will change the equilibrium of repayments. Such a significant increase in the interest rate, whether fixed or floating, raises the EMI amount substantially, potentially exceeding the borrower's original repayment capacity and leading to default.

NODIA

Oct/Nov 2024

17. What is the term for the phenomenon where banks elongate the repayment period to allow customers to pay the same EMI after an interest rate hike?

(A) Loan restructuring
(B) Re-scheduling of retail loans
(C) Loan refinancing
(D) Debt consolidation

Ans :

(B) Re-scheduling of retail loans
The phenomenon of allowing a borrower to pay the same EMI over an elongated repayment period, especially after an interest rate increase, is called re-scheduling of retail loans. This is a common practice, particularly in long-tenor loans like housing and educational loans, to help borrowers manage their payments and prevent the account from becoming an NPA.

May/June 2010

18. What is the primary characteristic of a 'Genuine Default'?

(A) The borrower's intention to pay is intact, but their financial ability to pay is affected.
(B) The borrower deliberately and with malafide intention chooses to default on payments.
(C) The borrower diverts sanctioned funds for purposes not permitted in the terms of sanction.
(D) The borrower has the full capacity to make payments but consciously chooses not to.

Ans :

(A) The borrower's intention to pay is intact, but their financial ability to pay is affected.
A genuine default occurs when a customer fails to repay EMIs due to reasons beyond their control, such as job loss, unforeseen medical expenses, or business setbacks. In such cases, the borrower's intention to repay the loan remains, but their financial ability is temporarily or permanently hampered, leading to the default.

Oct/Nov 2018

19. What should be the bank's approach towards recovery in cases of genuine defaults?

(A) A strict and firm approach focused solely on recovering the outstanding amount immediately.
(B) Immediate initiation of legal proceedings to secure the bank's interest without delay.

For genuine defaulters, the approach should be sensitive, gentle, and professional, aiming to help them recover. For wilful defaulters, the process must be strict and professional, applying significant pressure to recover the dues, as the intention to repay is absent.

May/June 2017

28. Based on the table "Irregularities in Loan Accounts - Special Mention Accounts", an account where the principal or interest payment is overdue for 45 days would be classified under which category?
(A) SMA-0
(B) SMA-1
(C) SMA-2
(D) NPA

Ans :

(B) SMA-1
According to the provided table, Special Mention Accounts (SMA) are categorized based on the duration of the overdue period. An account that is overdue for a period between 31 and 60 days falls under the SMA-1 category. Since the account is overdue for 45 days, it fits squarely within this classification for closer monitoring.

Oct/Nov 2021

29. A retail term loan becomes a Non-Performing Asset (NPA) when the interest and/or instalment of principal remains overdue for a period of more than how many days?
(A) 30 days
(B) 60 days
(C) 90 days
(D) 180 days

Ans :

(C) 90 days
As per prudential norms, a retail asset, specifically a term loan, becomes non-performing when it ceases to generate income for the bank. This occurs when the interest and/or the instalment of principal remains overdue for a period of more than 90 days. This 90-day rule is a standard benchmark for NPA classification for term loans.

May/June 2013

30. Under what circumstance should the entire interest accrued and credited to the income account in past periods be reversed?
(A) When an account is classified under the Special Mention Account (SMA-2) category for monitoring.
(B) When the borrower formally requests a rescheduling of the loan terms due to financial hardship.
(C) When the market value of the security provided falls below the outstanding loan amount.
(D) When any advance becomes an NPA and the interest charged in past periods is not yet realised.

Ans :

(D) When any advance becomes an NPA and the interest charged in past periods is not yet realised.
The policy for income recognition on NPA accounts is based on actual recovery. If an advance becomes an NPA, any interest that was previously accrued and credited to the bank's income account but has not been actually received or realised must be reversed. This ensures that the bank's income statement reflects only realised profits.

Oct/Nov 2010

31. An asset that has remained an NPA for a period less than or equal to 12 months is classified as what?
(A) Substandard Asset
(B) Loss Asset
(C) Doubtful Asset
(D) Special Mention Account

Ans :

(A) Substandard Asset
A substandard asset is defined as an asset that has been classified as a Non-Performing Asset (NPA) for a period that is less than or equal to 12 months. Such an asset exhibits well-defined credit weaknesses that jeopardize the liquidation of the debt, indicating a distinct possibility that the bank will sustain some loss.

May/June 2024

32. An asset is required to be classified as a 'Doubtful Asset' if it has remained in which category for more than 12 months?
(A) Standard Asset
(B) NPA
(C) Special Mention Account
(D) Substandard Asset

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Ans :

(B) NPA

An asset transitions from the substandard category to the doubtful category based on the time it has remained as an NPA. An asset must be classified as doubtful if it has remained a Non-Performing Asset (NPA) for a period exceeding 12 months. This signifies a more prolonged period of non-performance and increased risk.

Oct/Nov 2022

33. An asset that has remained in the doubtful category for more than 12 months and up to three years is classified as which of the following?

(A) Doubtful-I
(B) Doubtful-II
(C) Doubtful-III
(D) Substandard

Ans :

(B) Doubtful-II

Doubtful assets are further categorized based on how long they have been in that classification. An asset that has remained in the doubtful category for a period of more than 12 months and up to a total of three years is classified as Doubtful-II. This indicates a significant duration of non-recovery and higher provisioning requirements.

May/June 2008

34. What is the definition of a 'Loss Asset'?

(A) An asset considered uncollectible with little value, whose continuance as a bankable asset is not warranted.
(B) An asset that has remained in the Non-Performing Asset (NPA) category for more than 3 years.
(C) An asset where the assessed value of the underlying security has eroded by more than 50%.
(D) An asset that is unsecured and has remained as an NPA for a period of more than 12 months.

Ans :

(A) An asset considered uncollectible with little value, whose continuance as a bankable asset is not warranted.

A loss asset is an asset that is considered uncollectible and has such little value that its continuance as a bankable asset is not justified. Although there might be some minor salvage or recovery value, for all practical purposes, the asset is deemed a loss and should be written off from the books.

Oct/Nov 2014

35. An NPA may be straightaway classified under the doubtful category if the erosion in the value of security is significant. What is the threshold for this 'significant' erosion?

(A) Realisable value of security is less than 75% of the value assessed by the bank.
(B) Realisable value of security is less than 25% of the value assessed by the bank.
(C) Realisable value of security is less than 50% of the value assessed by the bank.
(D) Realisable value of security is less than 10% of the value assessed by the bank.

Ans :

(C) Realisable value of security is less than 50% of the value assessed by the bank.

In cases of serious credit impairment, an NPA can bypass the normal stages of classification. If there is a significant erosion in the value of the security, defined as the realisable value being less than 50% of the value assessed by the bank, the asset may be straightaway classified under the doubtful category.

May/June 2009

36. An asset should be straightaway classified as a 'Loss Asset' if the realisable value of the security is less than what percentage of the outstanding in the borrowal accounts?

(A) 50%
(B) 25%
(C) 20%
(D) 10%

Ans :

(D) 10%

If the realisable value of the security, as assessed by the bank, approved valuers, or the RBI, is less than 10% of the outstanding amount in the borrowal account, the existence of the security should be ignored. In such cases, the asset should be straightaway classified as a loss asset due to its negligible security coverage.

Oct/Nov 2007

37. A term loan was disbursed on 12th Feb 2012, with its first due date on 15th June 2012. The borrower did not make any payments. The account became

NODIA

irregular on 16th June 2012. On which date would this account be classified as 'Sub-Standard'?
(A) 16th June 2012
(B) 14th September 2013
(C) 14th September 2012
(D) 15th June 2013

Ans :

(C) 14th September 2012
The account became irregular on 16th June 2012. An account becomes an NPA after being overdue for more than 90 days. Counting from 16th June, the 90-day period ends on 13th September 2012. Therefore, on the 91st day, which is 14th September 2012, the account becomes an NPA and is consequently classified as a Sub-Standard asset.

May/June 2020

38. Following the scenario from the previous question, if the loan was classified as Sub-Standard on 14th September 2012 and remained NPA, on what date would it be classified as 'Doubtful-I'?
(A) 14th September 2012
(B) 14th September 2013
(C) 13th September 2013
(D) 14th September 2014

Ans :

(B) 14th September 2013
An asset is classified as Sub-Standard for a period up to 12 months. Since it was classified as Sub-Standard on 14th September 2012, it will remain in this category until 13th September 2013. Once it has remained an NPA for more than 12 months, it is reclassified as Doubtful. Thus, it becomes 'Doubtful-I' on 14th September 2013.

Oct/Nov 2006

39. What is the provisioning requirement for loss assets that are permitted to remain in the books for any reason?
(A) 50% of the outstanding amount
(B) 75% of the outstanding amount
(C) 25% of the outstanding amount
(D) 100% of the outstanding amount

Ans :

(D) 100% of the outstanding amount
Loss assets should ideally be written off. However, if they are permitted to remain in the bank's books for any reason, a provision of 100% of the outstanding amount must be made. This reflects the uncollectible nature of the asset and ensures the bank's financial statements are not overstated by carrying worthless assets.

May/June 2021

40. According to the provisioning norms for the secured portion of doubtful assets, what is the required provision for an asset that has remained in the 'doubtful' category for two years?
(A) 40%
(B) 25%
(C) 100%
(D) 15%

Ans :

(A) 40%
The provisioning requirement for the secured portion of a doubtful asset depends on the period it has remained in that category. According to the table, for an asset that has remained doubtful for a period between one and three years, the provision requirement is 40%. Since the asset has been doubtful for two years, it falls within this bracket.

Oct/Nov 2025

41. What is the general provision requirement for Substandard Assets on the total outstanding amount?
(A) 10%
(B) 20%
(C) 15%
(D) 25%

Ans :

(C) 15%
For assets classified as substandard, a general provision of 15% on the total outstanding amount is required. This provision is made without making any allowance for the value of securities available. It reflects the increased risk associated with an asset that has started showing signs of credit weakness by becoming an NPA.

May/June 2018

42. For substandard assets, an additional provision of 10% is attracted for 'unsecured exposures'. How is an 'unsecured exposure' defined in this context?
(A) The realisable value of the security is not more than 10% of the outstanding exposure.
(B) The realisable value of the security is assessed to be not more than 25% of the outstanding exposure.

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Banks should incorporate a covenant in loan agreements with companies stating that the borrowing company should not induct a person on its board whose name appears in the list of Wilful Defaulters. If such a person is found on the board, the company must take expeditious and effective steps for their removal.

May/June 2011

24. Which of the following is considered an instance of 'diversion of funds'?

(A) Utilizing short-term working capital funds for long-term purposes not in conformity with sanction terms.

(B) Using borrowed funds to purchase raw materials required for the sanctioned project activities.

(C) Repaying an existing loan from another bank with the sanctioned funds, as per agreed terms.

(D) Investing surplus profits generated from business operations into various equity instruments.

Ans :

(A) Utilizing short-term working capital funds for long-term purposes not in conformity with sanction terms.

The term 'diversion of funds' includes several occurrences, one of which is the utilization of short-term working capital funds for long-term purposes that are not in conformity with the terms of the loan sanction. This misapplication of funds goes against the intended use for which the working capital was provided by the lender.

Oct/Nov 2019

25. What is the definition of 'siphoning of funds'?

(A) Investing borrowed funds into subsidiary companies with the lender's explicit prior approval.

(B) A temporary shortfall in the deployment of funds vis-à-vis the total amount disbursed by the bank.

(C) Utilizing funds for purposes unrelated to the borrower's operations, to the detriment of the entity or lender.

(D) Routing funds through a bank other than the lender bank, but with the lender's prior permission.

Ans :

(C) Utilizing funds for purposes unrelated to the borrower's operations, to the detriment of the entity or lender.

'Siphoning of funds' is construed to occur if funds borrowed from banks are utilized for purposes that are unrelated to the operations of the borrower. This action must also be to the detriment of the financial health of the borrowing entity or the lender. The decision is based on objective facts and circumstances.

May/June 2015

26. What is the minimum cut-off limit for invoking penal provisions in respect of wilful defaulters or instances of siphoning/diversion of funds?

(A) ₹25 lakh or more

(B) ₹5 lakh or more

(C) ₹10 lakh or more

(D) ₹1 crore or more

Ans :

(A) ₹25 lakh or more

The cut-off limit for invoking the penal provisions in respect of a wilful defaulter, or for instances specifically involving siphoning or diversion of funds, is an outstanding amount of ₹25 lakh or more. Below this threshold, the specific penal measures associated with wilful default are not typically invoked, though recovery actions will still proceed.

Oct/Nov 2005

27. How should the recovery process differ between genuine defaulters and wilful defaulters?

(A) The process should be strict for genuine defaulters and comparatively gentle for wilful defaulters.

(B) The process should be identical for both types of defaulters to ensure procedural fairness and equality.

(C) Legal action should be taken immediately for genuine defaulters, while wilful defaulters are given more time.

(D) It should be gentle and professional for genuine defaulters, and strict and professional for wilful defaulters.

Ans :

(D) It should be gentle and professional for genuine defaulters, and strict and professional for wilful defaulters.

The monitoring and recovery process must differentiate between the two types of defaulters.

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Ans :

(A) Between 0700 hrs and 1900 hrs
The guidelines specify that a bank's representatives will normally contact the borrower between 0700 hrs and 1900 hrs. An exception is made if the special circumstances of the borrower's business or occupation require contact at a different time. This rule is designed to respect the borrower's privacy and avoid causing undue inconvenience.

May/June 2019

48. What must a bank do before initiating any legal or other recovery measures, including repossession of security?
(A) Contact the borrower telephonically at least three times to give verbal warnings.
(B) Give due notice to the borrower in writing as a formal procedural requirement.
(C) Send an authorized representative to the borrower's residence to deliver a final warning.
(D) Publish a general notice in a local newspaper about potential recovery actions.

Ans :

(B) Give due notice to the borrower in writing as a formal procedural requirement.
While telephonic reminders and visits are used as follow-up measures, the bank will not initiate any legal or other recovery measures, which include the repossession of security, without first giving the borrower due notice in writing. This is a critical procedural safeguard to ensure the borrower is formally and officially informed of the impending action.

Oct/Nov 2011

49. What right does the bank have if the sale of a repossessed property results in a shortfall against the outstanding dues?
(A) The bank is legally required to waive the remaining amount as a loss.
(B) The bank has the legal right to recover the balance due from the borrower.
(C) The bank can claim the shortfall amount from a government-backed insurance fund.
(D) The bank must file a new and separate lawsuit to recover the balance amount.

Ans :

(B) The bank has the legal right to recover the balance due from the borrower.
The valuation and sale of repossessed property are conducted as per law. If the proceeds from the sale are insufficient to cover the total outstanding dues, the bank retains the right to recover the remaining balance from the borrower. This can be pursued through various legal means, including exercising the right of set-off.

May/June 2025

50. Under what condition would a bank consider handing over a repossessed property back to the borrower?
(A) Any time after repossession but before the sale is concluded, if the bank's dues are cleared in full.
(B) Only if the borrower pays at least 50% of the total outstanding dues immediately.
(C) This is not permitted under any circumstance once repossession has been completed.
(D) Only if the borrower agrees to a higher interest rate on the remaining loan balance.

Ans :

(A) Any time after repossession but before the sale is concluded, if the bank's dues are cleared in full.
The policy indicates that repossession is a last resort for recovery, not for depriving the borrower of property. Accordingly, the bank is willing to consider handing back the property to the borrower at any point after repossession but before the sale transaction is finalized, provided the borrower clears all outstanding dues in full.

Oct/Nov 2008

51. The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002, was based on the recommendations of which two committees?
(A) Rangarajan Committee and Kelkar Committee
(B) Tarapore Committee and Goiporia Committee
(C) Narasimham Committee II and Andhyarujina Committee
(D) Damodaran Committee and Usha Thorat Committee

Ans :

(C) Narasimham Committee II and Andhyarujina Committee
The rising level of bank NPAs in the late 1990s led to the formation of committees to examine

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banking sector reforms. The Narasimham Committee II and the Andhyarujina Committee both suggested a new legislation for securitization and empowering banks to enforce security without court intervention, which led directly to the enactment of the SARFAESI Act.

May/June 2014

52. Which of the following is NOT a provision introduced by the SARFAESI Act, 2002?
(A) Securitization of a bank's financial assets to improve liquidity.
(B) Reconstruction of financial assets through specialized companies.
(C) Enforcement of security interest without the intervention of the Courts or Tribunals.
(D) Power for a bank's authorized officer to arrest the borrower without a court order.

Ans :

(D) Power for a bank's authorized officer to arrest the borrower without a court order.
The SARFAESI Act provides banks with significant powers, including securitization, asset reconstruction, and enforcement of security without court intervention. However, it does not grant banks the power to arrest a borrower. The power of arrest and detention is a judicial process that can be ordered by a Debt Recovery Tribunal, not directly exercised by a bank.

Oct/Nov 2020

53. Which of the following is NOT included in the definition of a 'financial asset' as per the SARFAESI Act?
(A) A claim to any debt, whether secured or unsecured.
(B) A mortgage charge or hypothecation of movable property.
(C) The borrower's personal reputation or goodwill.
(D) Any financial assistance.

Ans :

(C) The borrower's personal reputation or goodwill.
The definition of 'financial asset' under the SARFAESI Act is very broad, encompassing various forms of debt, receivables, and security interests in tangible and intangible assets. However, it is tied to financial instruments and obligations. A borrower's personal reputation or goodwill, being an intangible quality without a direct financial form, is not included in this definition.

May/June 2007

54. Identify the statement that is NOT a pre-condition for initiating action under the SARFAESI Act.
(A) The loan account must be classified as NPA and be backed by a valid security interest.
(B) The borrower must be formally identified and declared a wilful defaulter by the bank.
(C) The outstanding dues should be 20% or more of the original principal and accrued interest.
(D) The total outstanding amount in the account should be more than ₹1 lakh.

Ans :

(B) The borrower must be formally identified and declared a wilful defaulter by the bank.
While SARFAESI can be used against wilful defaulters, it is not a pre-condition. The key conditions are that the account must be a secured NPA, the outstanding must be over ₹1 lakh, and the outstanding must be at least 20% of the original principal and interest. Action can be initiated against any borrower meeting these criteria, not just wilful defaulters.

Oct/Nov 2013

55. Action under the SARFAESI Act cannot be initiated if the secured asset is of what type?
(A) Immovable property in a metropolitan area
(B) Movable property like vehicles or machinery
(C) Intangible assets like patents or licenses
(D) Agricultural land

Ans :

(D) Agricultural land
The SARFAESI Act has certain exclusions, and one of the most significant is that its provisions for enforcement of security interest cannot be applied to agricultural land. This is a specific protection provided within the legal framework, meaning banks must resort to other legal recovery channels for defaulted loans secured by such land.

May/June 2022

56. In the case of consortium advances, what is the minimum percentage of dues outstanding that lenders must hold to agree to initiate action under the SARFAESI Act?
(A) 60%
(B) 50%

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(C) 75%
(D) 100%

Ans :

(A) 60%
For loans financed by multiple lenders or a consortium, action under the SARFAESI Act cannot be initiated by a single lender unilaterally. The process requires the agreement of lenders who together hold a minimum of 60% of the total outstanding dues. This ensures a collective decision-making process among the creditors before such stringent action is taken.

Oct/Nov 2009

57. Under which section of the SARFAESI Act does a secured creditor issue a Demand Notice to a defaulting borrower?
(A) Section 13(13)
(B) Section 14
(C) Section 13(2)
(D) Section 29

Ans :

(C) Section 13(2)
The first formal step in the SARFAESI recovery process is the issuance of a Demand Notice by the secured creditor. This notice is issued under Section 13(2) of the Act, calling upon the defaulting borrowers, mortgagors, and guarantors to discharge the outstanding dues in full within a stipulated period of 60 days from its receipt.

May/June 2016

58. After receiving a Demand Notice under SARFAESI, if the borrower makes a representation or raises an objection, within how many days must the secured creditor reply?
(A) 15 days
(B) 7 days
(C) 30 days
(D) 60 days

Ans :

(A) 15 days
The SARFAESI Act provides a right to the borrower to make a representation or raise an objection upon receiving the demand notice. The secured creditor is legally obligated to consider this objection and communicate its reply, based on the factual position and merits, to the borrower within 15 days of receiving such representation.

Oct/Nov 2024

59. What restriction is placed on the borrower under Section 13(13) of the SARFAESI Act after they receive a demand notice?
(A) They cannot leave the country for any reason without the bank's explicit permission.
(B) They are prohibited from operating any other bank accounts with different financial institutions.
(C) They must submit a weekly report on their current financial status directly to the bank.
(D) They cannot transfer the secured assets by sale or lease without the bank's prior written consent.

Ans :

(D) They cannot transfer the secured assets by sale or lease without the bank's prior written consent.
Section 13(13) of the SARFAESI Act imposes a crucial restriction on the borrower/mortgagor/guarantor after the receipt of a demand notice. It prohibits them from transferring any of the secured assets through sale, lease, or any other means without obtaining the prior written consent of the secured creditor (the bank), thereby protecting the security.

May/June 2010

60. Within how many days of taking possession of an immovable property must the Possession Notice be published in two leading newspapers?
(A) Within 3 days
(B) Within 7 days
(C) Within 15 days
(D) Within 30 days

Ans :

(B) Within 7 days
After taking possession of an immovable mortgaged property, the Authorised Officer must ensure public notification. The Possession Notice must be published within seven days of taking possession. This publication needs to be in two leading newspapers that have sufficient circulation in the locality where the property is situated, with one being in the vernacular language.

Oct/Nov 2018

61. If a bank needs assistance to take physical possession of a secured asset, it can file an

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due to a bank or financial institution is less than twenty lakh rupees. Such smaller claims must be pursued through other legal avenues.

Oct/Nov 2021

71. A bank needs to file an application with the DRT for a debt amounting to ₹30 lakh. What is the fee payable?
(A) ₹12,000
(B) ₹30,000
(C) ₹42,000
(D) ₹22,000

Ans :

(D) ₹22,000
The debt is ₹30 lakh, which is ₹10 lakh above the ₹20 lakh base. The fee is calculated as ₹12,000 (for the first ₹20 lakh) plus ₹1,000 for every additional lakh.
For the extra ₹10 lakh, the additional fee is

$$10 \times 1{,}000 = 10{,}000$$

Therefore, the total fee payable is
₹12,000 + ₹10,000 = ₹22,000.

May/June 2013

72. An appeal against a DRT order to the DRAT must be filed within how many days from the date of receipt of the order?
(A) 30 days
(B) 45 days
(C) 60 days
(D) 90 days

Ans :

(A) 30 days
Any person aggrieved by an order passed by the DRT can prefer an appeal to the Debt Recovery Appellate Tribunal (DRAT). This appeal is required to be filed within 30 days from the date on which the copy of the DRT's order is received by the appellant, along with the mandatory pre-deposit.

Oct/Nov 2010

73. Which of the following is NOT one of the modes of recovery that can be executed by a Recovery Officer of a DRT?
(A) Attachment and subsequent sale of the movable or immovable property of the defendant.
(B) Arrest of the defendant and their subsequent detention in a civil prison.
(C) Publishing the defendant's name and photo in newspapers as a named defaulter.
(D) Appointing a receiver for the management of the movable or immovable properties of the defendant.

Ans :

(C) Publishing the defendant's name and photo in newspapers as a named defaulter.
The RDB Act specifies the modes of recovery available to a Recovery Officer. These include attachment and sale of property, taking possession of property, arrest and detention of the defendant, and appointing a receiver. Publishing the defendant's name as a defaulter, while a practice some banks follow, is not listed as a formal mode of execution by the Recovery Officer.

May/June 2024

74. In terms of priority of dues, the rights of secured creditors to realise secured debts shall have priority over what?
(A) Priority over all other debts and all Government dues including various taxes, cesses, and rates.
(B) Priority only over other unsecured private debts owed by the borrower to other parties.
(C) Priority only over the outstanding dues of operational creditors involved in the business.
(D) Priority only over unpaid employee wages, salaries, and other statutory employment dues.

Ans :

(A) Priority over all other debts and all Government dues including various taxes, cesses, and rates.
The law provides a significant advantage to secured creditors. Their right to realize secured debts by selling the secured assets has priority over all other debts. This includes priority over government dues such as revenues, taxes, cesses, and rates due to the Central Government, State Government, or any local authority, establishing a clear 'waterfall' for payments.

Oct/Nov 2022

75. What is a key characteristic of an award made by a Lok Adalat?
(A) It is purely advisory in nature and is not legally binding on any of the parties.

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(A) When the book outstanding at the time of the proposed auction is less than ₹5 lakh.
(B) When the property being auctioned is classified as agricultural land by the authorities.
(C) When the total sale consideration is expected to be less than ₹50 lakh.
(D) When the borrower gives their explicit and written consent for a manual auction process.

Ans :

(A) When the book outstanding at the time of the proposed auction is less than ₹5 lakh.
e-Auction is the compulsory mode for public sales under SARFAESI to ensure transparency and wider reach. However, a manual auction is permitted in two specific exceptional cases: either when the book outstanding (o/s) at the time of the auction is less than ₹5 lakh, or when the Forced Sale Value (FSV) of the property is less than ₹5 lakh.

Oct/Nov 2019

67. The Recovery of Debts due to Banks and Financial Institution Act, 1993, extends to the whole of India except which state?
(A) Nagaland
(B) Sikkim
(C) State of Jammu and Kashmir
(D) Goa

Ans :

(C) State of Jammu and Kashmir
The Debt Recovery Tribunals (DRTs) are established under The Recovery of Debts due to Banks and Financial Institution Act, 1993 (also known as the RDB Act). The text specifies that this Act extends to the whole of India with the exception of the State of Jammu and Kashmir, which has its own separate legal framework.

May/June 2015

68. What is the minimum qualification for a person to be appointed as the Presiding Officer of a Debt Recovery Tribunal (DRT)?
(A) Must be a retired High Court Judge with at least five years of service on the bench.
(B) Must be a senior officer of a bank with extensive experience in legal and recovery departments.
(C) Must have practiced as a lawyer specializing in banking law for at least 10 years.
(D) Has been, or is currently qualified to be appointed as, a District Judge.

Ans :

(D) Has been, or is currently qualified to be appointed as, a District Judge.
The eligibility criterion for the position of Presiding Officer of a Debt Recovery Tribunal is clearly defined. The person appointed to this judicial role must have been a District Judge or be qualified to be appointed as one. This ensures that the tribunal is headed by an individual with adequate judicial experience and competence.

Oct/Nov 2005

69. Which of the following claims can a Debt Recovery Tribunal (DRT) NOT hear?
(A) Cross suits and counter claims that are filed by the borrower against the lender.
(B) Applications for set-offs against the claimed debt amount filed by the borrower.
(C) Claims of damages or deficiency of services made by the borrower against the lender.
(D) Applications for the recovery of debt filed by eligible banks and financial institutions.

Ans :

(C) Claims of damages or deficiency of services made by the borrower against the lender.
While DRTs are empowered to handle comprehensive orders, including cross suits and counter claims related to the debt, their jurisdiction is specific. They cannot hear claims of damages, deficiency of services, breach of contract, or criminal negligence on the part of the lenders. Such matters fall under the purview of other courts or forums.

May/June 2017

70. The provisions of the RDB Act, 1993, shall not apply where the amount of debt due is less than what amount?
(A) ₹10 lakh
(B) ₹20 lakh
(C) ₹5 lakh
(D) ₹50 lakh

Ans :

(B) ₹20 lakh
The Debt Recovery Tribunal has a pecuniary jurisdiction limit. The provisions of the RDB Act, 1993, which governs the functioning of DRTs, do not apply to cases where the amount of debt

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borrowers only between 0700 hrs and 1900 hrs. Contacting a salaried individual at 10:00 PM is a clear violation of this rule, which is designed to respect the borrower's privacy. The agent's reasoning of meeting a target does not justify this breach of conduct.

Oct/Nov 2016

89. If a bank incorporates a re-possession clause in its loan contract, it must ensure it complies with the provisions of which Act?
(A) The SARFAESI Act, 2002
(B) The Banking Regulation Act, 1949
(C) The Indian Contract Act
(D) The Companies Act, 2013

Ans :

(C) The Indian Contract Act
When banks include a re-possession clause in the loan contract and intend to rely on it, they must ensure its legal validity. This includes ensuring the clause complies with the provisions of the Indian Contract Act in both letter and spirit, and that it is clearly brought to the borrower's notice during contract execution.

May/June 2019

90. What is the role of Credit Counsellors as encouraged by the RBI?
(A) To provide suitable counselling to borrowers in cases deserving sympathetic consideration.
(B) To act as official recovery agents for the bank to collect on overdue accounts.
(C) To provide legal advice and support to the bank against defaulting borrowers.
(D) To independently value the assets of the borrower for the purpose of a public auction.

Ans :

(A) To provide suitable counselling to borrowers in cases deserving sympathetic consideration.
Banks are encouraged to establish a mechanism to use the services of credit counsellors. Their role is not recovery but to provide suitable counselling to borrowers, especially when the bank becomes aware that a particular borrower's case is a genuine hardship and deserves sympathetic consideration. This is a supportive rather than an enforcement measure.

Oct/Nov 2011

91. Who is held responsible for the actions of recovery agents engaged by a bank?
(A) The recovery agents themselves are solely responsible.
(B) The Indian Banks' Association (IBA).
(C) The Reserve Bank of India (RBI).
(D) The banks, as principals.

Ans :

(D) The banks, as principals.
The legal principle of agency applies here. Banks, as the principals, are held responsible for the actions of their agents. Therefore, they must ensure that the recovery agents they engage strictly adhere to all guidelines and the BCSBI Code while carrying out their duties, as the bank is ultimately accountable for any misconduct.

May/June 2025

92. What supervisory action might the RBI consider imposing on a bank for persistent breaches of guidelines regarding recovery agents?
(A) A significant monetary penalty levied directly on the Chief Executive Officer of the bank.
(B) Imposing a ban on the bank from engaging recovery agents in a particular area or for a period.
(C) The immediate and permanent cancellation of the bank's license to operate.
(D) A requirement for a public apology to be issued by the bank's board of directors.

Ans :

(B) Imposing a ban on the bank from engaging recovery agents in a particular area or for a period.
For violations of its guidelines on recovery agents, the RBI has specific supervisory actions at its disposal. It may consider imposing a ban on a bank, preventing it from engaging any recovery agents in a specific geographical or functional area for a limited time. For persistent breaches, this ban can be extended.

Oct/Nov 2008

93. Assertion (A): A bank may choose to reschedule a home loan by extending its tenor while keeping the EMI the same.
Reason (R): A significant increase in floating interest rates can make the original EMI unaffordable for the borrower, and rescheduling helps prevent a default.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).

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(B) An appeal can be made to the local District Court if one party disagrees with the award.
(C) It is valid only if the agreed-upon settlement amount is paid in full within 30 days.
(D) It is deemed to be a decree of a civil court and is final and binding with no provision for appeal.

Ans :

(D) It is deemed to be a decree of a civil court and is final and binding with no provision for appeal.
An award passed by a Lok Adalat holds significant legal weight. It is deemed to be a decree of a civil court. Furthermore, every award is final and binding on all parties to the dispute, and crucially, no appeal shall lie to any court against the award, making it an efficient and conclusive method of dispute resolution.

May/June 2008

76. Pre-litigative cases and suit-filed cases can be referred to a Lok Adalat up to what maximum outstanding or plaint amount?
(A) ₹10 lakh
(B) ₹20 lakh
(C) ₹25 lakh
(D) ₹50 lakh

Ans :

(B) ₹20 lakh
Lok Adalats have a defined pecuniary jurisdiction for bank recovery cases. Pre-litigative cases relating to recovery with an outstanding amount up to ₹20 lakh can be referred. Similarly, suit-filed cases where the amount mentioned in the plaint does not exceed ₹20 lakh can also be brought before the Lok Adalat for settlement.

Oct/Nov 2014

77. Who typically presides over a Lok Adalat as the chairman?
(A) The bank's branch manager
(B) A senior advocate appointed by the bank
(C) A sitting or retired judicial officer
(D) An official from the Reserve Bank of India

Ans :

(C) A sitting or retired judicial officer
To ensure judicial sanctity and fairness, a Lok Adalat is presided over by a chairman who is a sitting or retired judicial officer. The chairman is typically assisted by one or two other members, who are usually a lawyer and a social worker, creating a balanced panel to facilitate a just and equitable settlement.

May/June 2009

78. What is the most important factor to be considered while deciding cases at a Lok Adalat?
(A) The age of the NPA
(B) The value of the security available
(C) The past repayment history of the borrower
(D) The consent of both the parties

Ans :

(D) The consent of both the parties
The fundamental principle of the Lok Adalat process is settlement through mutual agreement. Therefore, the most important factor is the consent of both parties (the bank and the borrower/guarantor). A settlement cannot be forced on any party. The award is passed only after both sides have agreed to the terms of the compromise.

Oct/Nov 2007

79. A bank branch has an unsecured personal loan NPA of ₹15 lakh and a housing loan NPA of ₹25 lakh. The branch manager wants to use the fastest and cheapest recovery mode. Which of these accounts can be referred to a Lok Adalat?
(A) Only the personal loan of ₹15 lakh.
(B) Only the housing loan of ₹25 lakh.
(C) Both the personal loan and the housing loan.
(D) Neither of the loans can be referred.

Ans :

(A) Only the personal loan of ₹15 lakh.
The pecuniary jurisdiction for referring cases to Lok Adalat is an outstanding amount up to ₹20 lakh. The unsecured personal loan of ₹15 lakh falls within this limit and can be referred. However, the housing loan of ₹25 lakh exceeds this limit and is therefore not eligible for recovery through the Lok Adalat mechanism.

NODIA

May/June 2020

80. What is a key difference in the recovery management approach between Public Sector Banks (PSBs) and private/foreign banks for retail loans?
(A) PSBs do not actively engage in recovery for retail loans, while private banks do.
(B) PSBs primarily use their own staff, while private/foreign banks often outsource to recovery agents.

application under Section 14 of the SARFAESI Act before which authority?
(A) The Debt Recovery Tribunal (DRT)
(B) The local Police Station
(C) The Chief Metropolitan Magistrate / District Magistrate
(D) The Reserve Bank of India

Ans :

(C) The Chief Metropolitan Magistrate / District Magistrate
If physical possession of the secured asset is resisted or cannot be taken smoothly, the Authorised Officer can seek assistance. This is done by filing an application along with an affidavit under Section 14 of the SARFAESI Act before the Chief Metropolitan Magistrate (CMM) or the District Magistrate (DM), who can then pass orders to assist in taking possession.

May/June 2023

62. A borrower aggrieved by the measures taken by a secured creditor under SARFAESI can make an application to the Debt Recovery Tribunal (DRT) within how many days?
(A) 30 days from the date of the measures
(B) 60 days from the date of the measures
(C) 90 days from the date of the measures
(D) 45 days from the date of the measures

Ans :

(D) 45 days from the date of the measures
A borrower, or any other person aggrieved by the actions taken by the secured creditor (such as taking possession), has the right to appeal. This application or appeal must be made to the Debt Recovery Tribunal (DRT) that has jurisdiction, within a period of 45 days from the date on which such measures were taken.

Oct/Nov 2012

63. When filing an appeal to the Debt Recovery Appellate Tribunal (DRAT) against a DRT order, what is the mandatory pre-deposit amount?
(A) 50% of the debt demanded by the bank or determined by the DRT, whichever is less.
(B) 25% of the total debt amount as demanded by the bank in the initial notice.
(C) 75% of the total debt amount as determined by the order of the Debt Recovery Tribunal.
(D) 100% of the total debt amount, representing the full claim being appealed.

Ans :

(A) 50% of the debt demanded by the bank or determined by the DRT, whichever is less.
To file an appeal before the DRAT, the appellant must deposit 50% of the amount of debt as demanded by the bank or as determined by the DRT, whichever is less. The DRAT has the power, for reasons to be recorded in writing, to reduce this upfront deposit, but not to an amount less than 25%.

May/June 2006

64. What is the minimum notice period that an Authorised Officer must give to the borrower before a property's first sale or auction?
(A) 15 days
(B) 30 days
(C) 45 days
(D) 60 days

Ans :

(B) 30 days
To ensure transparency and provide the borrower with a final opportunity, the Authorised Officer must serve a 'Sale Notice' on the borrowers, mortgagors, and guarantors. For the first sale or auction of the property, a notice period of 30 days is mandatory. This notice provides details such as the reserve price and the date of the auction.

Oct/Nov 2017

65. In the first auction of an immovable property under SARFAESI, the reserve price should be fixed at what level?
(A) 100% of the Fair Market Value
(B) 95% of the Fair Market Value
(C) The Forced Sale Value
(D) 85% of the Distress Sale Value

Ans :

(B) 95% of the Fair Market Value
The rules for sale under SARFAESI specify how the reserve price should be determined. For the first auction, the reserve price must be fixed at 95% of the Fair Market Value as assessed by an approved valuer. This is to ensure that the property is not sold at a price significantly below its market worth initially.

May/June 2011

66. A manual auction is permitted instead of a compulsory e-Auction under SARFAESI in which of the following cases?

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Ans :

(D) 100 hours of training and passing the DRA examination with 50% marks.

To ensure professionalism, RBI guidelines mandate specific training for recovery agents. A non-graduate must undergo 100 hours of training and also pass the Debt Recovery Agent (DRA) examination conducted by the Indian Institute of Banking and Finance (IIBF). The minimum prescribed passing mark for this examination is 50%.

Oct/Nov 2015

85. What is the minimum training requirement for a graduate to work as a recovery agent?

(A) 100 hours
(B) 75 hours
(C) 50 hours
(D) 25 hours

Ans :

(C) 50 hours

The training duration for recovery agents is differentiated based on their educational qualifications. For individuals who are graduates, the required training period is 50 hours. Following this training, they must also pass the Debt Recovery Agent (DRA) examination conducted by the IIBF to be eligible to work as a recovery agent for banks.

May/June 2012

86. Why are banks advised to ensure that their contracts with recovery agents do not include very stiff targets or high incentives?

(A) To significantly reduce the overall operational cost associated with the recovery process.
(B) To avoid inducing agents to adopt uncivilized, unlawful, and questionable behaviour.
(C) To prevent agents from improperly sharing their collection incentives with the borrowers.
(D) To ensure full compliance with international banking standards on employee compensation.

Ans :

(B) To avoid inducing agents to adopt uncivilized, unlawful, and questionable behaviour.

It is understood that setting very stiff recovery targets or offering excessively high incentives can motivate recovery agents to use intimidatory and questionable methods to meet those targets. Therefore, banks are advised to structure their contracts in a way that does not induce such uncivilized, unlawful, or questionable behaviour during the recovery process.

Oct/Nov 2023

87. What legal remedies are banks desired by the RBI to rely upon for enforcing security interest, such as seizing vehicles?

(A) Direct physical force and repossession by agents.
(B) Filing a complaint at the local police station.
(C) Obtaining an order from the Banking Ombudsman.
(D) Legal remedies available under relevant statutes like the SARFAESI Act.

Ans :

(D) Legal remedies available under relevant statutes like the SARFAESI Act.

The Supreme Court has observed that recovery of loans or seizure of vehicles must be done only through legal means. The RBI desires that banks rely solely on the well-defined legal remedies available under the relevant statutes, such as the SARFAESI Act and its associated rules, for enforcing security interest without direct court intervention.

NODIA

May/June 2005

88. A recovery agent contacts a borrower at 10:00 PM regarding an overdue credit card bill. The borrower, a salaried individual, objects to the timing. The agent insists, stating he is trying to meet his target. Which guideline is the agent violating?

(A) The guideline on respecting the borrower's privacy and normal contact timings (0700-1900 hrs).
(B) The guideline on carrying a proper identity card and authorization letter from the bank.
(C) The guideline on properly documenting all recovery efforts and conversations with the borrower.
(D) The guideline on providing the borrower with the full details of the recovery agency.

Ans :

(A) The guideline on respecting the borrower's privacy and normal contact timings (0700-1900 hrs).

RBI guidelines clearly state that bank representatives should normally contact

(C) Private banks are known to offer more generous settlement terms than Public Sector Banks.
(D) PSBs use only legal recovery routes, while private banks use only persuasive, non-legal routes.

Ans :

(B) PSBs primarily use their own staff, while private/foreign banks often outsource to recovery agents.
A distinct difference in strategy is noted between these bank types. Public Sector Banks typically administer recovery management for retail loans through their own internal staff. In contrast, private and foreign banks often outsource their recovery process, entrusting it to external Recovery Agents for end-to-end management of delinquent accounts, especially for unsecured loans.

Oct/Nov 2006

81. As per RBI guidelines, what must a bank do when forwarding a default case to a recovery agency?
(A) Obtain prior written permission from the Reserve Bank of India for each case.
(B) Inform the borrower of the name and address of the recovery agency firm/company.
(C) Publish the borrower's name and default details on the bank's official website.
(D) Ensure the individual recovery agent assigned to the case is a certified graduate.

Ans :

(B) Inform the borrower of the name and address of the recovery agency firm/company.
To ensure due notice and appropriate authorization, RBI guidelines mandate that banks must inform the borrower about the details of the recovery agency firm or company to which their default case is being forwarded. This provides transparency and allows the borrower to verify the identity of the agents who may contact them for recovery.

May/June 2021

82. What documentation should a recovery agent carry to ensure proper identification when contacting a borrower?
(A) A copy of the notice, the bank's authorization letter, and a valid identity card.
(B) The agent's identity card and a copy of their training certificate.
(C) The borrower's loan agreement and a statement of the overdue amount.
(D) A letter from the local police station and a copy of the filed complaint.

Ans :

(A) A copy of the notice, the bank's authorization letter, and a valid identity card.
To prevent issues of misidentification and to provide clear authority, it is appropriate for the recovery agent to carry multiple documents. This includes a copy of the notice sent to the borrower, an authorization letter from the bank empowering the agency, and the identity card issued to the agent by the bank or the agency.

Oct/Nov 2025

83. Under what circumstance should a bank NOT forward a case to a recovery agency?
(A) When the total outstanding loan amount is less than a threshold of ₹1 lakh.
(B) When the loan is fully secured by a registered mortgage on an immovable property.
(C) When the borrower has lodged a grievance or complaint that has not yet been resolved.
(D) When the borrower has missed only one Equated Monthly Installment (EMI).

Ans :

(C) When the borrower has lodged a grievance or complaint that has not yet been resolved.
The RBI guidelines state that where a grievance or complaint has been lodged by the concerned borrower, banks should not forward the case to a recovery agency until that complaint is finally disposed of. This ensures that the borrower's concerns are addressed by the bank first, before involving third-party agents in the recovery process.

May/June 2018

84. What is the minimum training and certification requirement for a non-graduate to work as a recovery agent?
(A) 50 hours of training and passing the associated DRA examination.
(B) No formal training required, but must pass the DRA examination.
(C) 100 hours of training and a final interview with the engaging bank.
(D) 100 hours of training and passing the DRA examination with 50% marks.

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(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is a common practice in banking. Reason (R) correctly explains the logic behind this practice. When interest rates rise, the original EMI becomes insufficient. To avoid default due to the borrower's inability to pay a higher EMI, banks often extend the loan tenor, which is the process of rescheduling, directly linking the reason to the assertion.

May/June 2014

94. Match List-I (Asset Classification) with List-II (Time Period).

	List-I (Asset Classification)		**List-II (Time Period)**
P.	Substandard	1.	NPA for > 3 years
Q.	Doubtful-I	2.	NPA for <= 12 months
R.	Doubtful-II	3.	NPA for > 12 months and <= 3 years
S.	Doubtful-III	4.	NPA for > 12 months (in doubtful category for <= 1 year)

(A) P-2, Q-4, R-3, S-1
(B) P-1, Q-2, R-3, S-4
(C) P-2, Q-3, R-4, S-1
(D) P-4, Q-1, R-2, S-3

Ans :

(A) P-2, Q-4, R-3, S-1
A Substandard asset is an NPA for up to 12 months (P-2). A Doubtful-I asset is one that has entered the doubtful category and remains so for up to one year (Q-4). A Doubtful-II asset has been in the doubtful category for over a year and up to three years (R-3). A Doubtful-III asset has been an NPA for over three years (S-1).

Oct/Nov 2020

95. Consider the following statements about wilful default:
1. The borrower defaults despite having the capacity to pay.
2. The borrower has siphoned off the funds.
3. The borrower defaults due to a genuine business loss.
4. The borrower disposes of secured assets without the lender's knowledge.

Which of the above statements characterize a wilful default?
(A) 1, 2, and 4 only
(B) 1 and 3 only
(C) 2, 3, and 4 only
(D) 1, 2, 3, and 4

Ans :

(A) 1, 2, and 4 only
Wilful default is characterized by a deliberate and malafide intention. This includes defaulting despite having the capacity to pay (1), siphoning off funds so they are unavailable (2), and disposing of the security without permission (4). A genuine business loss (3) is a reason for a 'genuine default', not a 'wilful default'.

May/June 2007

96. A borrower has an NPA account with a total outstanding of ₹80,000. The asset is a plot of agricultural land. The bank wants to initiate recovery proceedings. Which of the following recovery mechanisms is NOT available to the bank in this specific case?
(A) Filing a suit in a civil court.
(B) Initiating action under the SARFAESI Act, 2002.
(C) Referring the case to Lok Adalat.
(D) Persuading the borrower for a one-time settlement.

Ans :

(B) Initiating action under the SARFAESI Act, 2002.
The SARFAESI Act has specific conditions for its application. Action cannot be initiated if the outstanding is ₹1 lakh or less (here it is ₹80,000) and it cannot be initiated against agricultural land. Since this case fails on both conditions, the bank cannot use the SARFAESI Act for recovery and must rely on other methods.

Oct/Nov 2013

97. A bank classifies an account as doubtful. The total outstanding is ₹10 lakh. The realisable value of the tangible security is assessed at ₹6 lakh. The asset has been in the doubtful category for 18 months. Calculate the total provision required.
(A) ₹2,40,000
(B) ₹6,40,000

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(D) By organizing and managing promotional events in public places

Ans :

(C) By analyzing data to help offer credit to the right kind of customers
MIS plays a crucial role in business promotion by enabling targeted strategies. The system can analyze data to study business trends and identify the "right kind of customers" from upcoming and growing sectors. This allows the bank to proactively solicit these customers and offer credit, thereby increasing banking operations and managing risk.

Oct/Nov 2013

30. What is the purpose of the 'index monitoring system' feature in a bank's MIS?
(A) To monitor a variety of internal indices and ratios related to banking operations
(B) To track the daily movements of the stock market index like the Nifty or Sensex
(C) To create a performance index and rank employees based on their monthly targets
(D) To index and digitally archive all incoming customer complaint letters and emails

Ans :

(A) To monitor a variety of internal indices and ratios related to banking operations
The index monitoring system is an MIS feature designed for internal oversight. Its purpose is to monitor various indices and ratios crucial to banking operations. This includes legal requirements like the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR), as well as policy-driven metrics like the priority sector lending ratio.

May/June 2015

31. Which of the following of ratios are mentioned as fulfilling legal needs that an MIS index monitoring system should track?
(A) Net Profit Margin and Return on Equity
(B) Current Ratio and Quick Ratio
(C) Debt-to-Equity Ratio and Interest Coverage Ratio
(D) Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)

Ans :

(D) Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)
The text specifies that an MIS index monitoring system tracks various ratios. It explicitly identifies the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) as examples of ratios that fulfill the legal needs of the bank. The MIS helps managers ensure these ratios remain within the acceptable limits set by regulators.

Oct/Nov 2012

32. What kind of support should a bank manager receive to handle the problem of not meeting legal standards like CRR or SLR?
(A) Direct support and intervention from the marketing department
(B) Analytical support provided through a Decision Support Service (DSS)
(C) The immediate hiring of additional administrative staff for the branch
(D) An automatically increased budget allocation for branch renovation

Ans :

(B) Analytical support provided through a Decision Support Service (DSS)
When a bank faces the challenge of not meeting legal standards for its financial ratios, the MIS should provide more than just a report. The manager should also get support through a Decision Support Service (DSS). This service helps in analyzing the situation and making effective decisions to rectify the deviation and meet the required norms.

May/June 2011

33. Why is it necessary to upgrade the expertise and knowledge of bank employees even with computerization?
(A) Because computer systems are expected to become fully obsolete within the next few years
(B) Because widespread computerization has made most banking services significantly slower
(C) Because quality service still requires a human touch and specialized employee skill
(D) Because government regulations require all bank employees to pass a computer literacy test annually

Ans :

(C) Because quality service still requires a human touch and specialized employee skill

NODIA

CHAPTER 15
Management Information Systems

May/June 2018

1. A Management Information System (MIS) is composed of which three fundamental concepts?
(A) Data, Processing, and Output
(B) Management, Information, and System
(C) Hardware, Software, and People
(D) Planning, Organizing, and Controlling

Ans :

(B) Management, Information, and System
A Management Information System (MIS) is an integrated framework built upon three core pillars: Management, which encompasses managerial functions; Information, which is processed data for decision-making; and System, which refers to the interconnected components that fulfill specific functions. These three words together define the scope and purpose of the entire concept.

Oct/Nov 2009

2. In the context of MIS, how is 'Management' primarily viewed?
(A) As a multifaceted process, profession, and group of individuals performing specific managerial tasks
(B) As the formal hierarchical structure of authority, defining reporting lines and departmental divisions
(C) As the financial process of investing capital and managing physical and monetary assets for profit
(D) As the complete technology infrastructure, including all hardware, software, and networks supporting the organization

Ans :

(A) As a multifaceted process, profession, and group of individuals performing specific managerial tasks
Management is defined as a multifaceted concept, viewed as a function, a process, a profession, and a distinct group of people. It specifically relates to the tasks and activities performed by managers, such as planning, organising, directing, leadership, and controlling, which are essential for steering an organization towards its objectives.

May/June 2025

3. Which of the following best defines 'Information' within an MIS framework?
(A) Raw, unorganized facts and figures collected from various internal and external sources without any processing
(B) The physical hardware components and associated software programs that are used primarily for the long-term storage of data
(C) Data that has been organized and contextualized to aid in specific decision-making processes
(D) The complete set of formal rules, procedures, and protocols that govern data entry, validation, and storage integrity

Ans :

(C) Data that has been organized and contextualized to aid in specific decision-making processes
Information is not merely raw data; it is the product of processing data. It is defined as data that has been organized and presented in a meaningful context at a relevant time and place. This transformation from data to information is what empowers a decision-maker to take necessary and informed actions for the organization.

Oct/Nov 2016

4. According to the process flow depicted for converting data into a decision, what is the correct sequence of stages?
(A) Data → Information → Process → Decision → Action
(B) Process → Data → Decision → Information → Action
(C) Information → Data → Process → Action → Decision
(D) Data → Process → Information → Decision → Action

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Ans :

(D) Data → Process → Information → Decision → Action

The conversion of raw data into a tangible outcome follows a logical progression. It begins with raw 'Data', which undergoes a 'Process' to become meaningful 'Information'. This information is then used to make a 'Decision', which finally leads to the execution of an 'Action'. This sequence is fundamental to how MIS supports organizational functions.

May/June 2012

5. What is the definition of a 'System' as a component of MIS?

(A) A single, standalone computer application or program designed to execute one specific, isolated task

(B) A mandatory government regulation or specific legal statute that all businesses in a sector are required to follow

(C) A group of interconnected elements or components that are joined together to fulfill certain specified functions

(D) A formal financial report, such as an income statement, generated at the end of an accounting period

Ans :

(C) A group of interconnected elements or components that are joined together to fulfill certain specified functions

A system is defined as a collection of interconnected elements or components that work together cohesively to achieve specific functions. These systems, which can be either natural or man-made, are often composed of smaller sub-systems that contribute to the overall objective, forming the structural basis of an MIS.

Oct/Nov 2014

6. What is considered the most critical resource of a Management Information System?

(A) The computer hardware

(B) The information itself

(C) The operating software

(D) The team of system developers

Ans :

(B) The information itself

While hardware, software, and personnel are essential components, the core value and purpose of an MIS are centered on information. The system is fundamentally dependent upon information, which is described as its most critical resource. The primary goal is to manage and leverage this information to achieve organizational goals and enhance efficiency.

May/June 2019

7. How is a Management Information System best described?

(A) A simple data storage repository with limited user access and basic query capabilities

(B) A standalone software application used exclusively for accounting and bookkeeping purposes

(C) A manual filing system used for physically organizing and storing various paper-based documents

(D) An integrated man-machine system designed to provide information for planning and control functions

Ans :

(D) An integrated man-machine system designed to provide information for planning and control functions

An MIS is formally defined as an integrated man-machine system. Its primary purpose is to provide relevant and timely information that supports the key managerial functions of planning and control. This integration of human users with technology is crucial for effective decision-making and operational management within an organization.

Oct/Nov 2006

8. What is the primary function of the formal methods provided by "MIS"?

(A) To provide accurate and timely information that facilitates the organizational decision-making process

(B) To enforce strict, top-down hierarchical communication protocols across all departments in the organization

(C) To fully automate all manual tasks and business processes with the ultimate goal of replacing human employees

(D) To design and create promotional marketing materials intended for distribution to external stakeholders

NODIA

Ans :

(A) To provide accurate and timely information that facilitates the organizational decision-making process

"MIS" refers to the formal methods used to supply managers with precise and timely information. The ultimate goal of these methods is to facilitate and enhance the decision-making process during planning, control, and the execution of effective and optimum organizational decisions, ensuring that choices are based on reliable data.

May/June 2021

9. Which of the following is NOT listed as one of the main elements of MIS?

(A) An integrated system designed to give consistent service to a wide range of users
(B) A responsive user-machine interface that allows for temporary and immediate database searches
(C) A decentralized system with independent, non-communicating databases
(D) Supporting the key operational, tactical, and strategic decision-making functions of management

Ans :

(C) A decentralized system with independent, non-communicating databases

A key element of MIS is a computer system that links information software via a database, implying integration and shared access. A decentralized system with non-communicating databases contradicts the principle of an integrated system serving many users, which is a core feature of a well-structured Management Information System.

Oct/Nov 2010

10. According to the main elements of MIS, to whom should the information be presented?

(A) To all management levels
(B) Only to top-level executives
(C) Only to external auditors
(D) Only to the IT department staff

Ans :

(A) To all management levels

One of the five main elements of a Management Information System is the presentation of information to all management levels. This ensures that managers at every tier of the organization—strategic, tactical, and operational—have access to the data they need to perform their respective planning, control, and decision-making functions effectively.

May/June 2005

11. What are the two main roles played by MIS in managerial decision-making?

(A) Automating routine administrative tasks and generating mandatory annual financial statements
(B) Marketing new products to potential customers and managing the employee payroll system
(C) Monitoring employee internet activity and enforcing corporate policy through automated alerts
(D) Aiding decisions with prepared information and supporting repetitive, structured managerial tasks

Ans :

(D) Aiding decisions with prepared information and supporting repetitive, structured managerial tasks

MIS serves two primary roles. First, it helps managers make decisions based on the information it prepares and presents. Second, when decision-making processes are fixed and only input data changes, it acts as a suitable repeat mechanism to support various types of recurring managerial decisions, thereby increasing consistency and efficiency.

Oct/Nov 2022

12. How does MIS assist managers in problem-solving?

(A) By automatically implementing pre-programmed solutions without requiring any managerial approval
(B) By helping managers define existing problems and identify potential data-driven solutions
(C) By restricting access to sensitive organizational information to prevent any possibility of incorrect analysis
(D) By outsourcing all complex decision-making tasks to external consulting firms with specialized expertise

Ans :

(B) By helping managers define existing problems and identify potential data-driven solutions

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Oct/Nov 2023

20. In today's context, the scope of banking services has expanded, leading to banks being described as what?
(A) "Credit-Only Institutions"
(B) "Government Treasury Branches"
(C) "Digital Payment Gateways"
(D) "Financial Services Super Shoppe"

Ans :

(D) "Financial Services Super Shoppe"
The traditional role of banks has broadened significantly beyond just deposits and credit. The scope of services has expanded to the point where banks are now considered a "Financial Services Super Shoppe." They act as instruments for providing financial assistance for various activities, meeting regulatory obligations, and offering a wide array of financial products.

May/June 2016

21. Which of the following is NOT one of the three main factors on which customers choose a bank?
(A) The bank's proximity to their workplace
(B) The ease of doing business
(C) The quality of personnel and service
(D) The range of the financial services

Ans :

(A) The bank's proximity to their workplace
The text explicitly lists three primary factors influencing a customer's choice of a bank: the ease of doing business, the quality of personnel and service, and the range of financial services offered. While physical proximity might be a convenience factor for some, it is not mentioned as one of the main drivers in this context.

Oct/Nov 2015

22. What is considered the single most widely used measure of quick service in the banking industry?
(A) The elapsed time of transaction execution for the customer
(B) The total number of physical branches a bank operates nationally
(C) The annual percentage rate offered on savings accounts and deposits
(D) The overall size of the bank's annual marketing and advertising budget

Ans :

(A) The elapsed time of transaction execution for the customer
In banking, a unique service aspect is solving customer problems quickly. The most common and widely used metric for measuring this quick service is the elapsed time of transaction execution. Examples include the time taken to credit an amount, process a cash withdrawal, or sanction a loan, which are norms for deciding service excellence.

NODIA

May/June 2013

23. An MIS in the banking industry must be designed to develop a service strategy for a broad range of customers. What is one of the service demands mentioned?
(A) Providing complimentary legal advice on various non-financial matters
(B) Offering free catering and beverage services at all branch locations
(C) Assisting with payment of electricity bills and local taxes at the counter
(D) Arranging for private transportation services for high-value customers

Ans :

(C) Assisting with payment of electricity bills and local taxes at the counter
To enhance convenience, customers often seek services beyond core banking. An MIS should be designed to support these varied demands. One such demand is providing a service at the counter for customers to pay utility bills like electricity and telephone, as well as local taxes and duties, avoiding inconvenience for them.

Oct/Nov 2021

24. Which of the following is a key factor that influences the design of an MIS for a specific bank?
(A) The uniform MIS template that is mandated for all banks to use by the central banking authority
(B) The exact design, feature set, and user interface of a competing bank's existing MIS
(C) The personal technology preferences and past experiences of the current IT department head
(D) The bank's specific goals, objectives, staff quality, and customer segmentation strategy

Ans :

(D) The bank's specific goals, objectives, staff quality, and customer segmentation strategy

(B) Through its systematic tools, timely information, and alignment with adequate managerial policies
(C) By encouraging decisions based primarily on intuition and unconfirmed anecdotal information
(D) By operating completely independently of any organizational policies, regulations, or guidelines

Ans :

(B) Through its systematic tools, timely information, and alignment with adequate managerial policies
An MIS establishes a solid basis for concrete decisions by providing a structured framework. This foundation is built upon its systematic tools for analysis, the provision of timely and relevant information, and its alignment with adequate managerial policies and regulations. This structured approach ensures that decisions are well-grounded and consistent.

May/June 2011

17. What is the benefit of an MIS having the capacity to provide real-time updates on occurrences within a company?
(A) It allows managers to delay all significant actions and decisions until the end of the fiscal quarter
(B) It helps managers take necessary and appropriate actions promptly, especially during crises
(C) It significantly reduces the need for any form of direct managerial oversight or human intervention
(D) It provides important updates only on a fixed weekly or monthly basis, regardless of issue urgency

Ans :

(B) It helps managers take necessary and appropriate actions promptly, especially during crises
The ability of most MIS programs to provide real-time, or immediate, updates is a significant advantage. These updates enable managers to take necessary actions as soon as they are deemed appropriate. This is particularly crucial during the discovery and management of crises, where a slight lapse in decision-making can lead to huge losses.

Oct/Nov 2020

18. What is the main goal of Management Information Systems when it comes to organizational data?
(A) To organize, summarize, and present data from every level in a way that facilitates decisions
(B) To collect data from only the top level of the organization and keep it strictly confidential from other levels
(C) To store all collected data in its raw, unsummarized format for long-term archival and compliance purposes
(D) To automatically delete any organizational data that is more than one fiscal year old to save storage space

Ans :

(A) To organize, summarize, and present data from every level in a way that facilitates decisions
The primary objective of these systems is to manage data comprehensively. This involves organizing all data collected from every level of the organization, summarizing it to extract key insights, and presenting it in a format that directly facilitates and improves the quality of decisions being made, thereby increasing company profitability and productivity.

May/June 2022

19. From where is the information collected and gathered for an MIS typically sourced?
(A) Only from internal sources such as operational departments and employee records within the organization
(B) Only from external market research firms and paid third-party data providers
(C) From both inside sources within the company and outside sources such as market trends
(D) Exclusively from government publications and official regulatory body announcements

Ans :

(C) From both inside sources within the company and outside sources such as market trends
To provide a comprehensive view for decision-making, MIS gathers information from a wide array of sources. These systems are designed to collect data from both internal origins, such as operational departments and financial records, and external sources, like market trends, competitor activities, and economic indicators, ensuring a holistic perspective.

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MIS functions as a critical tool that provides managers with the required information from organizational sources. This enables them to be better prepared for decision-making. Specifically, MIS helps managers to clearly define the problems they are facing, understand the context of these issues, and subsequently find appropriate solutions.

May/June 2023

13. What is the relationship between the quality of a Management Information System and the quality of managerial decisions?

(A) They are inversely related, as a superior MIS often leads to poorer decisions due to information overload

(B) They are unrelated, as the quality of a decision depends solely on a manager's individual experience and intuition

(C) They are directly related, as a good MIS supports good decisions and a bad MIS leads to poor ones

(D) The quality of an MIS primarily affects operational decisions, having little impact on strategic ones

Ans :

(C) They are directly related, as a good MIS supports good decisions and a bad MIS leads to poor ones

There is a direct and crucial link between the quality of an MIS and the outcomes of managerial decisions. The quality of managerial decision-making depends directly on the quality of available information. A good MIS fosters good decisions, whereas a poorly functioning MIS is likely to lead to bad or uninformed decisions.

Oct/Nov 2018

14. Before an organization decides on an MIS strategy, what is a vital consideration to ensure its effectiveness?

(A) The strategy selected must be the most expensive one available to guarantee high quality and performance

(B) The strategy must be developed entirely by an external vendor without any input from internal staff

(C) The chosen strategy must be incompatible with the current system to force a necessary organization-wide upgrade

(D) The chosen strategy must be fully compatible with the organization's existing systems and processes

Ans :

(D) The chosen strategy must be fully compatible with the organization's existing systems and processes

To avoid erratic choices and wasted time and money, it is vital to ensure that the selected MIS strategy is fully compatible with the organization's existing systems. This ensures a smoother integration and alignment with current processes. There should be a connecting point between the decisions to be made and the MIS tool used.

NODIA

May/June 2007

15. Why is it recommended that organizations carefully select the individuals who are placed to control Management Information Systems?

(A) Because MIS is a complex area that requires significant caution and professionalism to manage

(B) Because MIS is a simple tool that functions effectively with only minimal oversight from staff

(C) Because individuals selected for this role must possess an extensive and proven background in marketing

(D) Because the role is not strategic and primarily involves routine, repetitive, and manual data entry tasks

Ans :

(A) Because MIS is a complex area that requires significant caution and professionalism to manage

MIS is described as a highly complex and delicate field that demands significant caution from its managers. The more cautious and professional the person controlling the system is, the better the assurance of positive outcomes in decision-making and other business areas. This highlights the need for careful selection of personnel for such critical roles.

Oct/Nov 2025

16. How does an MIS lay a firm foundation for the establishment of concrete decisions?

(A) By severely limiting the amount and type of information that is made available to managers

The design of a bank's MIS is not a one-size-fits-all process. It varies significantly from one bank to another. Key influencing factors include the bank's unique goals and objectives, the quality of its staff, the level of technological development, and its specific approach to customer segmentation, requiring a tailored system.

May/June 2024

25. While designing an MIS for a bank, which factor is considered under the 'Customer database' component?

(A) The bank's calculated annual profit margin and return on assets
(B) The total number of full-time and part-time employees in the bank
(C) The range of services used by the customer, such as savings or credit
(D) The specific brand and model of computer hardware used by the tellers

Ans :

(C) The range of services used by the customer, such as savings or credit
When creating a customer database as part of an MIS design, several factors are analyzed to understand customer needs. These include the type of customer (individual, company), the operator (housewife, employee), the class of customer (income group), working hours, and the range of services they utilize, such as savings, credit checking, or payments.

Oct/Nov 2008

26. A bank's MIS generates a report highlighting an account that has a balance of ₹75,000 but has had no transactions for over a year. Which specific report category does this fall under?

(A) The account going down below minimum balance
(B) The non-moving account
(C) The defaults on loan repayment
(D) A sudden rise and fall in the account movement

Ans :

(B) The non-moving account
The scenario describes an account that is dormant or inactive despite holding a significant balance. The MIS is designed to identify such accounts for the management. This specific situation would be flagged in a report on "The non-moving account," enabling the bank to potentially engage the customer or manage the funds appropriately.

May/June 2006

27. An MIS for a bank should generate a report when an account's balance is more than a certain threshold. What is the example threshold amount mentioned in the text?

(A) ₹10,000
(B) ₹25,000
(C) ₹1,00,000
(D) ₹50,000

Ans :

(D) ₹50,000
The text provides specific examples of reports that an MIS should generate for bank management to monitor account activity. One such report is for an account "having the balance of more than, say ₹50,000." This helps identify high-value accounts, which may be either dormant or require special attention from the bank.

Oct/Nov 2017

28. According to the CRM perspective mentioned in the text, what percentage of business might come from certain account holders who require personal care for their service expectations?

(A) 80%
(B) 20%
(C) 50%
(D) 100%

Ans :

(A) 80%
From a Customer Relationship Management (CRM) perspective, it is noted that a segment of account holders provides a significant portion of the business. The text states that some account holders "were giving 80% business," highlighting the need for the bank to take personal care of their service expectations and perceptions to retain them.

NODIA

May/June 2008

29. How can a bank's MIS contribute to 'Service for business promotions'?

(A) By designing and producing television and print advertisements
(B) By automatically reducing standard interest rates for all customers
(C) By analyzing data to help offer credit to the right kind of customers

(C) ₹4,00,000
(D) ₹1,60,000

Ans :

(B) ₹6,40,000
The total outstanding is ₹10 lakh. The secured portion is ₹6 lakh and the unsecured portion is ₹4 lakh (10-6). For the unsecured portion, 100% provision is required, which is ₹4,00,000. For the secured portion, since it has been doubtful for 18 months (i.e., 1-3 years), a 40% provision is needed. 40% of ₹6 lakh is ₹2,40,000.

Total provision = ₹4,00,000 + ₹2,40,000

= ₹6,40,000.

May/June 2022

98. Which of the following statements regarding the recovery process is incorrect?
(A) Bank representatives have the right to contact the borrower at any time of the day or night.
(B) Banks and their representatives are expected to respect the privacy of their borrowers.
(C) Repossession of security is aimed at recovery of dues, not to deprive the borrower of property.
(D) Bank staff authorized for recovery should display their authority letter upon the borrower's request.

Ans :

(A) Bank representatives have the right to contact the borrower at any time of the day or night.
This statement is incorrect. The general guidelines for recovery clearly specify that a bank's representatives should normally contact the borrower between 0700 hrs and 1900 hrs. Contacting a borrower outside of these hours is generally not permitted unless required by special circumstances of the borrower's occupation, respecting their privacy and personal time.

Oct/Nov 2009

99. A mortgagor has the right to redeem the property by paying the full dues at any time before which event?
(A) Before the official date of the public auction is formally fixed by the bank.
(B) Before the bank takes symbolic possession of the secured property from the borrower.
(C) Before the date of publication of the notice for public auction or private treaty.
(D) Before the official valuation of the property is completed by an approved valuer.

Ans :

(C) Before the date of publication of the notice for public auction or private treaty.
The mortgagor's right of redemption is a crucial right. They can redeem their property by paying all the outstanding dues to the bank at any time before the date of publication of the notice for the public auction or before inviting quotations or tenders for a private treaty. Once the notice is published, this right is extinguished.

May/June 2016

100. Identify the correct pair from the following.
(A) SMA-2 : Overdue for a period between 31 and 60 days
(B) Substandard Asset Provision : A flat rate of 25% on the total outstanding amount
(C) DRT Jurisdiction : Recovery cases with a debt amount less than ₹20 lakh
(D) Lok Adalat Jurisdiction : Recovery cases with a debt amount up to ₹20 lakh

Ans :

(D) Lok Adalat Jurisdiction : Recovery cases with a debt amount up to ₹20 lakh
The pecuniary jurisdiction for referring cases to Lok Adalat is for outstanding amounts up to ₹20 lakh, making this pair correct. SMA-2 is for overdue periods of 61-90 days. The general provision for Substandard assets is 15% on the total outstanding. DRT jurisdiction is for debts of ₹20 lakh and above, not less.

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Although computerization makes banking services faster and more efficient, it does not eliminate the human element. Service delivery still requires a human touch and specialized skill. Therefore, it is essential to continuously upgrade the expertise and knowledge of employees to ensure they can offer proper, high-quality service to customers in a competitive environment.

Oct/Nov 2020

34. How should an MIS assist in the 'Human resource upgrade' aspect of a bank?
(A) By completely automating the annual employee performance appraisal process
(B) By developing artificial intelligence bots with the goal of replacing most bank employees
(C) By actively monitoring employees' personal social media accounts for policy violations
(D) By identifying employee training needs and helping management design training courses

Ans :

(D) By identifying employee training needs and helping management design training courses
In the context of human resource upgrades, the MIS should play a supportive role. It should identify needs, such as gaps in employee knowledge about banking and the financial world. The system can then offer help to management in designing appropriate training courses to address these gaps and improve overall service quality.

May/June 2017

35. A multinational bank sets a standard for 'satisfying the queries in the first phone call'. What is this type of standard referred to as?
(A) A Quality Indicator
(B) A Financial Indicator
(C) A Profitability Metric
(D) A Compliance Benchmark

Ans :

(A) A Quality Indicator
To ensure good service quality, banks set internal standards for performance. The example of satisfying a query on the first call, along with others like cheque clearance time and waiting time, is referred to as a 'Quality Indicator'. The MIS is used to measure performance against these standards and provide feedback on achievement.

Oct/Nov 2005

36. The factors affecting existing issues related to MIS can be broadly divided into which three categories?
(A) Technical, Financial, and Legal
(B) Humanistic, Environmental, and Organizational
(C) Strategic, Tactical, and Operational
(D) Local, National, and International

Ans :

(B) Humanistic, Environmental, and Organizational
The text categorizes the major drawbacks and reasons for failure in MIS implementation into three broad groups. These are humanistic factors, which relate to the people involved; environmental factors, concerning the external context and methodology; and organizational factors, which pertain to the internal structure and processes of the institution.

May/June 2020

37. Which of the following is considered a 'Humanistic factor' leading to MIS issues?
(A) The lack of participation of managers and users in the system design process
(B) The lack of clear procedures and methodology for creating the system
(C) An unsuitable or poorly planned implementation of the information system
(D) Inadequate and incomplete documentation for system use and maintenance

Ans :

(A) The lack of participation of managers and users in the system design process
Humanistic factors relate to the people involved with the MIS. The lack of participation by managers and end-users during the system design phase is a critical humanistic issue. This can lead to a system that does not meet user needs, resulting in low adoption rates and overall failure of the MIS project.

Oct/Nov 2019

38. The "lack of suitable consultants for designing the system and software" is classified under which category of MIS-related issues?
(A) Environmental factors
(B) Humanistic factors
(C) Organizational factors
(D) Technological factors

NODIA

(A) They provide managers with unlimited authority to make any decision they deem appropriate, regardless of risk
(B) They completely eliminate the need for any human decision-maker in the operational process
(C) They bridle decision-makers from overstepping their boundaries or exceeding their business mandate
(D) They focus solely on financial data, intentionally ignoring all operational aspects of the business

Ans :

(C) They bridle decision-makers from overstepping their boundaries or exceeding their business mandate
MIS acts as a set of guidelines for business owners and managers. These inherent rules and the structured information provided help keep decision-makers in check, bridling them from overstepping their boundaries or exceeding their business mandate. This ensures that only proven decisions are considered, while untried or risky ones are thwarted.

Oct/Nov 2021

56. The MIS in the banking industry is designed to identify, decide, and develop a service strategy. What is the ultimate goal of this strategy?
(A) To minimize the number of services offered in order to reduce operational complexity
(B) To offer a distinctive service that caters to a broad range of customers
(C) To standardize service for all customers, irrespective of their individual needs
(D) To focus exclusively on serving high-net-worth individuals and corporate clients

Ans :

(B) To offer a distinctive service that caters to a broad range of customers
The text concludes its discussion on the role of MIS in banking by stating its core purpose. The MIS should be designed to help the bank identify, decide, and develop a service strategy aimed at offering a distinctive service that caters to the diverse demands of its broad range of customers.

May/June 2024

57. A bank is planning to launch a new, specialized credit card for high-income corporate executives. Which component of the MIS design would be most crucial in the initial phase of identifying and targeting potential customers?
(A) The customer database
(B) The index monitoring system
(C) The human resource upgrade module
(D) The report on non-moving accounts

Ans :

(A) The customer database
To target a specific segment like high-income corporate executives, the bank needs to analyze its existing client information. The customer database, which includes factors like 'Class of Customers' (income group, corporate bodies) and 'Operator' (employee, officer), is the most critical MIS component for identifying and understanding this target audience for business promotion.

Oct/Nov 2008

58. Which of the following is NOT an example of a 'Quality Indicator' used by a multinational bank to measure service standards?
(A) Satisfying queries in the first phone call
(B) Cheque clearance time
(C) Waiting time at the branch
(D) Employee satisfaction survey score

Ans :

(A) Satisfying queries in the first phone call
The text provides specific examples of 'Quality Indicators' that a bank might use to measure and monitor its service quality from a customer's perspective. These include cheque clearance time, waiting time, and first-call query resolution. While employee satisfaction is important, it is not listed as an example of these customer-facing service quality indicators.

May/June 2006

59. Consider the following factors related to MIS issues:
1. Lack of good conditions for participation and collaboration.
2. Unsuitable implementation of the system.
3. Inadequate and incomplete documentation.
4. Bad condition of educating the specialized forces.

These issues are classified under which category?
(A) Humanistic Factors
(B) Environmental Factors
(C) Organizational Factors
(D) Documentation Factors

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Ans :

(B) Absorbing efficient and skillful employees and creating suitable motivations for them

To address the human aspect of MIS implementation, it is suggested that organizations focus on retaining and motivating their workforce. This involves absorbing efficient and skillful employees into the new processes and creating suitable motivations to ensure their stability and buy-in. This fosters a positive environment for change and leverages existing talent.

May/June 2014

43. What institutional structure is suggested to be formed in all important administrative organizations to support MIS?

(A) An external audit committee composed of independent financial experts

(B) A dedicated social media management team for public relations

(C) Information services institutions designated as official MIS supporters

(D) A separate legal department focused specifically on technology law

Ans :

(C) Information services institutions designated as official MIS supporters

One of the recommendations for successful MIS implementation is to establish a formal support structure within the organization. This involves the formation of "information services institutions" in all key administrative bodies. These institutions would then be designated as the official supporters (MIS) of the organizations, providing dedicated expertise and oversight.

Oct/Nov 2007

44. What is the role of an 'MIS council' or 'MIS directing committee' as suggested for solving MIS issues?

(A) To handle the day-to-day technical support tickets and user help requests

(B) To be formed only after the MIS project is completed to oversee maintenance

(C) To be involved from the initial stages of an MIS project in the organization

(D) To exclusively manage the budget and procurement process for the MIS project

Ans :

(C) To be involved from the initial stages of an MIS project in the organization

The formation of an MIS council or a directing committee is recommended as a governance measure. It is crucial that this committee is established and involved right from the initial stages of the MIS project. This ensures high-level strategic oversight, alignment with organizational goals, and stakeholder buy-in throughout the project lifecycle.

May/June 2025

45. Which of the following statements correctly identifies a key concept from the chapter?

(A) A bank is now considered a 'Financial Services Super Shoppe'.

(B) MIS issues are primarily categorized as technical and financial.

(C) CRR and SLR are examples of policy needs for a bank.

(D) A key humanistic factor in MIS failure is inadequate documentation.

Ans :

(A) A bank is now considered a 'Financial Services Super Shoppe'.

The chapter explicitly states that the scope of banking in today's world has expanded to a "Financial Services Super Shoppe." The other options are incorrect: MIS issues are categorized as humanistic, environmental, and organizational; CRR and SLR are legal needs, not policy needs; and inadequate documentation is listed as an organizational factor, not a humanistic one.

NODIA

Oct/Nov 2019

46. Identify the incorrect statement regarding the role of MIS.

(A) A good MIS ensures good decision making.

(B) MIS can provide real-time updates to help managers handle crises.

(C) MIS helps managers to define problems and find solutions.

(D) The quality of managerial decision making is independent of the quality of available information.

Ans :

(D) The quality of managerial decision making is independent of the quality of available information.

The text strongly emphasizes a direct correlation between information quality and decision quality. It states that "The quality of managerial decision making depends directly on the

quality of available information." Therefore, the statement that they are independent is incorrect and contradicts a central theme of the chapter regarding the importance of a good MIS.

May/June 2009

47. A bank manager notices that the institution is struggling to meet its Priority Sector Lending (PSL) targets. Which feature of the MIS would be most directly useful in monitoring and addressing this issue?
(A) The customer database
(B) The index monitoring system
(C) The service to account holders reports
(D) The human resource upgrade module

Ans :

(B) The index monitoring system
The Priority Sector Lending ratio is a policy-driven target that banks must meet. The 'index monitoring system' feature of an MIS is specifically designed to monitor such internal indices and ratios. This system would help the manager track performance against the PSL target and support decisions to keep it within acceptable limits.

Oct/Nov 2011

48. Consider the following statements about MIS:
1. It is an integrated man-machine system.
2. It provides information to support only the control function of managers.
3. It is a set of combined procedures that gathers and produces reliable data.

Which of the above statements is/are correct?
(A) 1 only
(B) 1 and 3 only
(C) 2 and 3 only
(D) 1, 2, and 3

Ans :

(B) 1 and 3 only
Statement 1 is correct, as MIS is defined as an integrated man-machine system. Statement 3 is also correct, as it is a set of procedures for gathering and producing reliable data. However, Statement 2 is incorrect because MIS provides information to support both the planning and control functions of managers, not just control.

May/June 2010

49. An MIS is designed to provide reports on several key account indicators. Which of the following is NOT one of the report types mentioned for servicing account holders?
(A) The defaults on loan repayment.
(B) The regular payments not made.
(C) A sudden rise and fall in the account movement.
(D) The account's profitability score.

Ans :

(D) The account's profitability score.
The text lists several specific reports an MIS should provide to management regarding account holders. These include reports on non-moving accounts, high balances, minimum balance breaches, missed payments, loan defaults, credit delays, and sudden account movement. A report on the account's "profitability score" is not mentioned in this specific list.

Oct/Nov 2024

50. What is the primary reason decision-making is considered an integral part of any business?
(A) Because the majority of an organization's operations revolve around decisions made by its management
(B) Because it is a formal legal requirement mandated for all registered companies in the country
(C) Because it provides a formal, structured process for the frequent hiring and firing of company employees
(D) Because the decisions themselves are the primary product or service that is sold by most modern businesses

Ans :

(A) Because the majority of an organization's operations revolve around decisions made by its management
Decision-making is described as an integral part of business because the vast majority of an organization's operations and activities are a direct result of decisions made by management and other key stakeholders. These choices dictate the direction, resource allocation, and operational conduct of the entire enterprise, making them fundamentally important.

May/June 2017

51. Assertion (A): Organizations must ensure they have a good management information system.
Reason (R): Decisions are based on information available, and a good MIS ensures good decision

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making.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion (A) that organizations need a good MIS is a central point of the chapter. The reason (R) provides the underlying logic: decisions depend on available information, and a good MIS provides the quality information needed for good decisions. Thus, both statements are true, and (R) correctly explains why (A) is important.

Oct/Nov 2005

52. Read the following list of factors:
1. Lack of understanding of the needs of the users by designers.
2. Lack of information of the managers and users.
3. Lack of participation of the managers and users in system design.
4. Lack of accuracy in the data collected.

These factors are major drawbacks of MIS and are categorized as:
(A) Environmental factors
(B) Organizational factors
(C) Financial factors
(D) Humanistic factors

Ans :

(D) Humanistic factors
The provided list contains issues directly related to the people involved in the MIS lifecycle: designers, managers, and users. These include problems with understanding, communication, participation, and data handling. The chapter explicitly classifies these types of issues under the category of 'Humanistic factors' that can lead to MIS failures.

May/June 2020

53. Match the MIS design consideration (List-I) with its corresponding example (List-II).
List-I
P. Customer Database
Q. Service to Account Holders
R. Index Monitoring System
S. Human Resource Upgrade
List-II
1. Report on accounts going below minimum balance.
2. Identifying training needs for employees.
3. Tracking the Cash Reserve Ratio (CRR).
4. Classifying customers by income group.

Code:
(A) P-4, Q-1, R-3, S-2
(B) P-1, Q-4, R-2, S-3
(C) P-4, Q-3, R-1, S-2
(D) P-2, Q-1, R-3, S-4

Ans :

(A) P-4, Q-1, R-3, S-2
P (Customer Database) involves classifying customers, such as by income group (4). Q (Service to Account Holders) includes generating reports like those on minimum balance breaches (1). R (Index Monitoring System) is for tracking key ratios like CRR (3). S (Human Resource Upgrade) involves identifying employee training needs (2).

Oct/Nov 2015

54. Without an established MIS, organizations would be forced to make decisions based on what?
(A) The most recent but unverified market trends and widespread competitor rumors
(B) Strict regulatory guidelines only, without any internal operational data context
(C) The general consensus of all employees, gathered through informal and unstructured polls
(D) Baseless information due to a critical lack of confirmed and processed data

Ans :

(D) Baseless information due to a critical lack of confirmed and processed data
The text highlights that MIS provides a fitting platform for good decision-making. It posits that without such established systems for obtaining information, organizations would find it extremely difficult to make decisions. They would be compelled to rely on baseless information precisely because of the absence of confirmed, processed, and reliable data.

May/June 2013

55. How do MIS statutes regarding businesses act as a safeguard for managers and key decision-makers?

NODIA

May/June 2010

73. Which of the following is NOT a managerial function that Management, as a component of MIS, is determined by?
(A) Planning
(B) Organising
(C) Marketing
(D) Controlling

Ans :

(C) Marketing
The text defines the nature of activities in 'Management' by listing several core managerial functions. These are specified as planning, organising, directing, leadership, and controlling. While marketing is a crucial business function, it is not included in this particular list of defining managerial functions within the context of the MIS definition.

Oct/Nov 2024

74. Identify the incorrect pair from the following options.
(A) Information - Product of processing data
(B) System - Group of elements joined together
(C) Management - Tasks performed by managers
(D) Data - Organized and presented for decision-making

Ans :

(D) Data - Organized and presented for decision-making
The definition "Organized and presented for decision-making" applies to 'Information', not 'Data'. Data is the raw, unprocessed input. Information is the result of processing that data into a meaningful format. Therefore, this pairing is incorrect as it misattributes the definition of information to data, which is its precursor in the process.

May/June 2014

75. "The MIS should concentrate on data collection from various sources to analyse and conclude the future corporate strategy. Such information will help the banker to move out to talk to the customer to obtain business for the bank." This description applies to which aspect of MIS design?
(A) Service to the account holders
(B) Human resource upgrade
(C) Service for business promotions
(D) Index monitoring system

Ans :

(C) Service for business promotions
The quoted text describes using MIS to analyze data from various sources to devise a future corporate strategy, specifically for soliciting customers and obtain new business. This aligns perfectly with the description of 'Service for business promotions', which focuses on using MIS to identify and approach the right customers to increase banking operations.

Oct/Nov 2007

76. Assertion (A): An excellent financial performance by a bank guarantees high-quality customer service.
Reason (R): Customers expect service to be delivered in a smooth, problem-free, efficient, and timely manner.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is false but (R) is true.
(D) (A) is false and (R) is false.

Ans :

(C) (A) is false but (R) is true.
The assertion (A) is false; the text explicitly states that "An excellent financial performance may not necessarily mean a good service quality." However, the reason (R) is true, as the text confirms that customers of a bank expect service to be delivered smoothly, efficiently, and in a timely manner.

May/June 2025

77. An MIS implementation project at a bank fails. The post-mortem analysis reveals that the system designers, who were external consultants, did not fully grasp the unique needs of the bank tellers and loan officers. This failure is a classic example of which type of MIS issue?
(A) An Environmental factor, due to the poor selection of external consultants
(B) An Organizational factor, due to the creation of inadequate or incomplete documentation
(C) A Humanistic factor, due to the lack of understanding of user needs by designers
(D) A Financial factor, due to an insufficient budget for user requirement analysis

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Ans :

(C) Organizational Factors
All the listed issues—lack of collaboration, unsuitable implementation, poor documentation, and inadequate education of specialists—are problems rooted within the organization's structure, processes, and management practices. According to the text's classification, these are all prime examples of 'Organizational factors' that can hinder the success of an MIS.

Oct/Nov 2017

60. What is the final step in the process flow that begins with 'Data'?
(A) Information
(B) Action
(C) Decision
(D) Process

Ans :

(B) Action
The process flow described is Data → Process → Information → Decision → Action. The entire sequence is geared towards a tangible outcome. After raw data is processed into useful information and a decision is made based on that information, the final and conclusive step is to take the necessary 'Action' based on that decision.

May/June 2008

61. The term "Operator" in the context of a bank's customer database design refers to which of the following?
(A) The bank teller who operates the computer terminal during a transaction
(B) The role or profession of the customer, such as Housewife or Employee
(C) The technology company that operates the bank's core banking software
(D) The senior manager who is in charge of the MIS department's operations

Ans :

(D) The senior manager who is in charge of the MIS department's operations
In the section on designing a customer database for a bank's MIS, the factor 'Operator' is used to classify the customer based on their profession or primary role. The examples given are "Housewife, Employee, The officer of the organization," indicating it is a characteristic of the customer, not a bank employee or a system.

Oct/Nov 2013

62. The management of a retail bank wants to proactively contact customers whose accounts are at risk of becoming overdrawn. Which specific MIS report would be most helpful for this task?
(A) The report on accounts with a balance of more than ₹50,000
(B) The report on accounts going down below minimum balance
(C) The report on non-moving accounts
(D) The report on delays in crediting cheque amounts

Ans :

(B) The report on accounts going down below minimum balance
To prevent accounts from becoming overdrawn and to alert customers in a tight money situation, the bank needs to identify accounts with dwindling funds. The MIS report that flags accounts "going down below minimum balance" is the most direct and relevant tool for this specific proactive customer service initiative.

May/June 2015

63. What is the main reason that an excellent financial performance by a bank may not necessarily mean good service quality?
(A) Financial performance is typically based on outdated data, while service quality is always real-time
(B) Customers are generally unaware and do not care about the bank's overall financial performance
(C) Traditional methods of measuring real financial performance are sometimes at odds with good service
(D) Good service quality almost always leads to a decrease in the bank's financial performance

Ans :

(C) Traditional methods of measuring real financial performance are sometimes at odds with good service
The text points out a potential disconnect in the banking industry, stating that "the traditional methods of real performance are at odds with good service." This implies that while a bank might be profitable (excellent financial performance), its methods for achieving that performance might not align with delivering a smooth, efficient, and customer-centric service experience.

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Oct/Nov 2012

64. Identify the correct pair from the following options regarding MIS issues.
(A) Humanistic Factor - Lack of suitable consultants
(B) Organizational Factor - Bad condition of educating the specialized forces
(C) Environmental Factor - Inadequate education of the users
(D) Environmental Factor - Lack of participation of the managers in system design

Ans :

(B) Organizational Factor - Bad condition of educating the specialized forces
"Bad condition of educating the specialized forces" is listed as an Organizational factor. Option (A) is incorrect as lack of consultants is an Environmental factor. Option (C) is incorrect as inadequate user education is an Organizational factor. Option (D) is incorrect as lack of manager participation is a Humanistic factor.

May/June 2011

65. A system is described as being made up of sub-systems and can be either natural or man-made. This definition falls under which core component of MIS?
(A) Management
(B) System
(C) Information
(D) Process

Ans :

(A) Management
The definition of a 'System' within the MIS framework is a group of interconnected elements or components. The text further elaborates on this by stating that a system is composed of sub-systems and that these systems can be categorized as either natural (like an ecosystem) or man-made (like an MIS).

Oct/Nov 2020

66. "The financial world changes so fast that retaining a client base is a challenge. The financial service business is becoming competitive and offering an excellent, distinctive service is the only solution to improve the business prospects." This statement emphasizes the need for which aspect of MIS design in a bank?
(A) Index Monitoring System
(B) Human Resource Upgrade
(C) Customer Database creation
(D) Service for business promotions

Ans :

(B) Human Resource Upgrade
The quote highlights the competitive nature of the financial world and the necessity of providing excellent, distinctive service. The text presents this as the rationale for the 'Human resource upgrade' section, arguing that employee expertise and skills must be continuously improved to deliver such high-quality service and retain clients in a fast-changing environment.

May/June 2017

67. Consider the following as potential reports generated by a bank's MIS for its account holders:
1. The routine credits not arrived.
2. The defaults on loan repayment.
3. The delays on crediting cheque amounts.
4. The sudden rise and fall in the account movement.

Which of the above are mentioned as reports the MIS should provide to management?
(A) 1 and 2 only
(B) 1, 3 and 4 only
(C) 2 and 4 only
(D) 1, 2, 3, and 4

Ans :

(D) 1, 2, 3, and 4
The section on 'Service to the account holders' provides a comprehensive list of reports that an MIS should generate for effective management. All four options listed—routine credits not arriving, loan repayment defaults, delays in crediting cheques, and sudden account movement—are explicitly mentioned in the text as critical monitoring points for a bank's MIS.

Oct/Nov 2005

68. What is the fundamental purpose of an MIS, as summed up in the text?
(A) To increase the overall complexity of existing organizational processes
(B) To serve as a group of processes to obtain, sort, and display data for decision-making
(C) To function as a complete and autonomous replacement for human managers
(D) To focus exclusively on gathering data from external sources and competitors

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Ans :

(B) To serve as a group of processes to obtain, sort, and display data for decision-making
In summarizing the concept, the text describes MIS as a group of processes. The function of these processes is to obtain data, sort it, and then display it in a useful way. The ultimate purpose of this entire activity is to support and facilitate the decision-making purposes of the organization's managers.

May/June 2020

69. The need for an MIS to be in line with the decisions that are to be made implies there should be a:
(A) Disconnecting point between the decision and the MIS tool
(B) Connecting point between the decision and the MIS tool
(C) Complete replacement of the decision-maker by the MIS tool
(D) Manual override for every decision suggested by the MIS tool

Ans :

(B) Connecting point between the decision and the MIS tool
The text highlights that it is noteworthy for the MIS strategy or tool to be aligned with the decisions being made. It explicitly states, "there should be a connecting point between the decision to be made and the MIS to be used." This ensures relevance and effectiveness of the system in supporting specific decisional needs.

Oct/Nov 2019

70. A bank's management team is concerned about retaining its most valuable customers. An MIS report identifies a group of clients who, despite having moderate balances, contribute to 80% of the bank's retail business through frequent, high-value transactions. What perspective is the MIS applying to identify these customers?
(A) A risk management perspective
(B) A CRM (Customer Relationship Management) perspective
(C) A regulatory compliance perspective
(D) A human resources perspective

Ans :

(A) A risk management perspective
The scenario focuses on identifying and catering to high-value customers based on their overall business contribution, not just their account balance. The text explicitly links this concept—identifying account holders giving "80% business" who need personal care—to "the CRM perspective," which prioritizes managing and nurturing customer relationships for long-term value.

May/June 2009

71. The "lack of evaluation of environmental aspects in management information systems" is listed as a drawback under which category?
(A) Humanistic factors
(B) Organizational factors
(C) Environmental factors
(D) Systemic factors

Ans :

(C) Environmental factors
This specific drawback refers to the failure to consider and evaluate aspects of the broader environment in which the MIS operates. According to the chapter's classification system, this type of issue—along with lack of procedures, suitable consultants, and adequate investment—is categorized as an 'Environmental factor' affecting MIS success.

Oct/Nov 2011

72. What is the primary role of MIS when decision-making and decisions are fixed, and only the input data changes?
(A) It ceases to be useful and must be immediately redesigned from scratch
(B) It acts as a suitable repeat mechanism to support various managerial decisions
(C) It automatically switches to a manual processing mode for human verification
(D) It restricts user access to prevent any changes from being made to the process

Ans :

(B) It acts as a suitable repeat mechanism to support various managerial decisions
The chapter describes two main roles for MIS. The second role applies to situations with structured, repetitive decisions where the process is fixed. In such cases, the MIS acts as a "suitable repeat," efficiently processing different input data to support various managerial decisions of a similar type, ensuring consistency and speed.

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Ans :

(A) Environmental factors
Environmental factors pertain to the broader context in which the MIS is developed. The absence or lack of suitable external consultants with the right expertise for system and software design falls under this category. It represents a deficiency in the available resources and support from the external environment for the project.

May/June 2009

39. Which of the following is an 'Organizational factor' that can cause MIS failure?
(A) The lack of understanding of user needs and requirements by the system's technical designers
(B) The persistent lack of accuracy and reliability in the raw data being collected and fed into the system
(C) The failure to analyze existing systems and methods prior to designing the new system
(D) The lack of serious consideration from top management, leading to inadequate investment in the project

Ans :

(C) The failure to analyze existing systems and methods prior to designing the new system
Organizational factors are issues rooted in the company's internal structure, culture, and processes. A failure to conduct a thorough analysis of existing systems and methods before beginning a new system design is a significant organizational oversight. This can lead to a new system that is redundant or incompatible with established workflows.

Oct/Nov 2011

40. According to the suggestions for solving MIS-related issues, why is it difficult to frame common solutions applicable to every organization?
(A) Because organizations differ in their basic nature, constitution, culture, goals, and objectives
(B) Because the underlying MIS technology and software changes too rapidly for solutions to be standardized
(C) Because there is a persistent and severe global shortage of skilled and experienced MIS professionals
(D) Because strict government regulations prevent the sharing of MIS strategies and solutions between companies

Ans :

(A) Because organizations differ in their basic nature, constitution, culture, goals, and objectives
The text states that framing common, universally applicable solutions for MIS issues is very difficult. The reason provided is that each organization is unique. They differ fundamentally in their nature, constitution, culture, goals, and objectives, which means that MIS-related issues and their corresponding solutions will also be different and specific to each organization.

May/June 2010

41. What is one of the key recommendations for solving MIS-related issues before using information systems in an organization?
(A) Waiting for direct competitors to implement their own information systems first
(B) Minimizing the involvement of employees to speed up the implementation process
(C) Selecting the cheapest available software and hardware to minimize initial costs
(D) Providing a comprehensive strategic plan for using the information systems

Ans :

(D) Providing a comprehensive strategic plan for using the information systems
A primary suggestion for mitigating MIS issues is to be proactive and strategic. Before the implementation and use of an MIS, it is necessary for the organization to develop and provide a comprehensive plan. This plan should outline the strategy, objectives, and roadmap for the system's use, ensuring a structured and purpose-driven approach.

Oct/Nov 2024

42. What measure is suggested to ensure the stability of existing employees when implementing or improving an MIS?
(A) Reducing their current salaries to help fund the new information system project
(B) Absorbing efficient and skillful employees and creating suitable motivations for them
(C) Threatening termination for any employees who do not adapt to the new system quickly enough
(D) Outsourcing most of their existing roles and responsibilities to a third-party technology vendor

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Ans :

(C) A Humanistic factor, due to the lack of understanding of user needs by designers
The core of the problem lies in the communication gap and lack of understanding between the system designers and the end-users (tellers, officers). The text explicitly lists "The lack of understanding of the needs of the users by designers" as the first example of a 'Humanistic factor' that leads to MIS failures.

Oct/Nov 2018

78. What is the key characteristic of information that distinguishes it from raw data?
(A) It is used for inferential purposes, arguments, or forecasting.
(B) It is always voluminous, unorganized, and context-free.
(C) It exists only in a physical, paper-based format for archival.
(D) It is generated exclusively by external sources outside the organization.

Ans :

(A) It is used for inferential purposes, arguments, or forecasting.
Information is more than just processed data; it has a purpose. The text defines it as data that has been retrieved or processed for specific uses. These uses include being informative, serving inferential purposes, supporting arguments, or acting as a basis for forecasting, all of which go beyond the nature of raw data.

May/June 2007

79. Consider the following statements regarding the benefits of MIS:
1. It helps in keeping businesses checked and balanced.
2. It augments progress and improvement in company operations through timely decision making.
3. It forces organizations to make decisions based on baseless information.

Which of the above statements is/are correct?
(A) 1 only
(B) 1 and 2 only
(C) 3 only
(D) 1, 2 and 3

Ans :

(B) 1 and 2 only
Statement 1 is correct, as MIS acts as a guideline, helping to keep businesses checked. Statement 2 is also correct, as the capacity for real-time updates and timely decisions augments progress. Statement 3 is incorrect; MIS does the opposite, providing confirmed information to prevent decisions from being baseless, not forcing them to be.

Oct/Nov 2025

80. The unique service in banking, which MIS is designed to support, mostly involves what?
(A) Offering the highest possible interest rates on deposit accounts
(B) Solving the customers' problems in various financial matters
(C) Providing the most aesthetically pleasing and modern branch interiors
(D) Having the largest number of ATMs and branches in the country

Ans :

(B) Solving the customers' problems in various financial matters
While rates and facilities are important, the text identifies the "unique service in banking" as primarily revolving around solving the customers' problems related to their financial matters. The MIS in banking is geared towards supporting this, with a key measure of success being the speed and efficiency of transaction execution and problem resolution.

May/June 2011

81. Which of the following is NOT a factor mentioned that the design of a bank's MIS will depend upon?
(A) Goals and objectives
(B) Quality of staff
(C) The global price of crude oil
(D) Technological development

Ans :

(C) The global price of crude oil
The text lists several factors that influence the design of a bank's MIS, making it unique to each institution. These include its goals and objectives, quality of staff, technological development, and customer segmentation. The global price of crude oil, while an important economic indicator, is not mentioned as a direct factor in this specific context.

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Oct/Nov 2016

100. According to the summary, what is the single most widely used measure of quick service in banking?

(A) The number of positive customer reviews posted on social media

(B) The annual percentage yield (APY) offered on savings products

(C) The number of new accounts opened per month by the branch

(D) The elapsed time of transaction execution

Ans :

(D) The elapsed time of transaction execution

The 'Let Us Sum Up' section reiterates a key point from the chapter's main body. It states that "the single most widely used measure of quick service is the elapsed time of transaction execution." This reinforces the idea that speed and efficiency in completing customer transactions are the primary metrics for service quality in banking.

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STAY ONE STEP AHEAD.

(A) Immediately increase the banking fees for these specific account holders.
(B) Alert or warn the customer to act on his account to correct a flagged situation.
(C) Treat these accounts exactly the same as all other, less valuable accounts.
(D) Consider closing these accounts to reduce the bank's dependency on a small group.

Ans :

(B) Alert or warn the customer to act on his account to correct a flagged situation.
The source text is part of a larger paragraph explaining that MIS reports on various account issues should trigger a response. Immediately following this discussion, it states, "Based on these reports, the management of the bank should alert or warn the customer to act on his account to correct the situation," directly linking the reports to proactive customer communication.

May/June 2013

87. An MIS helps in reviewing and controlling an organization's operations. What is the ultimate aim of this improved control and decision quality?
(A) To increase the number of hierarchical levels and managers in the organization
(B) To increase the company's profitability and productivity
(C) To justify a larger annual budget for the IT department and its staff
(D) To reduce the number of products and services offered to simplify operations

Ans :

(B) To increase the company's profitability and productivity
The text clearly states that the purpose of using MIS as a tool for reviewing and controlling operations is to "improve the quality of the decisions being made to increase the company's profitability and productivity." The end goal is tangible business improvement, not just process enhancement for its own sake.

Oct/Nov 2021

88. Consider the following statements:
Statement I: Information is the result or product of processing data.
Statement II: Data is defined as information that has been organized and presented at a time and place for decision-making.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct and Statement II is incorrect.
(D) Statement I is incorrect and Statement II is correct.

Ans :

(C) Statement I is correct and Statement II is incorrect.
Statement I is correct as it accurately defines information as the output of data processing. Statement II is incorrect because it reverses the definitions. It is information, not data, that is organized and presented for decision-making. Data is the raw, unprocessed input that is converted into information.

May/June 2024

89. What is a key motivation for customers to seek services like bill payments at a bank counter?
(A) To earn higher interest or cashback rewards on their bill payments
(B) To avoid the inconvenience of going to different places for payment
(C) To receive a significant discount on their utility and tax bills
(D) To fulfill a legal requirement that states all bills must be paid through a bank

Ans :

(B) To avoid the inconvenience of going to different places for payment
The text explains that customers need services like counter payments for electricity bills, telephone bills, and taxes. The reason provided is "To avoid the inconvenience of going to some places for payment of small amounts." This positions the service as a convenience-oriented offering, consolidating payments at a single point.

Oct/Nov 2008

90. Which of the following is NOT a suggestion provided for the solution of MIS-related issues?
(A) Forming an MIS council or directing committee from the initial project stages
(B) Providing a comprehensive plan before using the information systems
(C) Relying solely on the existing skills of employees without new training
(D) Absorbing efficient and skillful employees and creating suitable motivations

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Oct/Nov 2020

82. Match the keyword from the chapter (List-I) with its appropriate context (List-II).

List-I

P. CRM
Q. SLR
R. Financial Services Super Shoppe
S. Compatible

List-II

1. Legal ratio monitored by the index monitoring system.
2. The expanded scope of a modern bank.
3. A vital consideration when choosing an MIS strategy.
4. A perspective used to give personal care to high-value customers.

Code:

(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-4, R-3, S-2
(C) P-4, Q-2, R-1, S-3
(D) P-3, Q-1, R-2, S-4

Ans :

(A) P-4, Q-1, R-2, S-3
P (CRM) is linked to the perspective of caring for customers providing 80% business (4). Q (SLR) is a legal ratio monitored by the MIS (1). R (Financial Services Super Shoppe) describes the modern bank's expanded role (2). S (Compatible) refers to the need for a new MIS to be compatible with the current system (3).

May/June 2022

83. Why is the capacity of an MIS to guide decision-making considered important?

(A) It significantly reduces the need for qualified and experienced managers.
(B) It facilitates progress and improvement of operations in an organization.
(C) It ensures that all decisions made by managers are final and irreversible.
(D) It centralizes all decision-making power exclusively in the IT department.

Ans :

(B) It facilitates progress and improvement of operations in an organization.
The text states that, more importantly, the capacity to guide decision-making is valuable because it "facilitates progress and improvement of the operations in an organization." By providing a structured and informed basis for choices, MIS helps the organization move forward and enhance its operational effectiveness, rather than making arbitrary or uninformed decisions.

Oct/Nov 2023

84. Which of the following is NOT an example of a transaction execution time that serves as a norm for deciding excellent service in a bank?

(A) Time taken for crediting an amount
(B) Time taken for withdrawal of cash
(C) Time taken for the bank's stock price to increase
(D) Time taken for the sanction of a loan or credit facility

Ans :

(C) Time taken for the bank's stock price to increase
The norms for excellent service are measured by the elapsed time of customer-facing transaction execution. The text gives examples like crediting amounts, cash withdrawals, and loan sanctions. The bank's stock price movement is a measure of its market valuation and financial performance, not a direct measure of its operational service quality to a customer.

May/June 2016

85. The "lack of serious consideration and adequate investment" in MIS is a drawback classified as:

(A) A humanistic factor
(B) An environmental factor
(C) An organizational factor
(D) A political factor

Ans :

(B) An environmental factor
The text lists the "lack of serious consideration and adequate investment in this regard" under the category of Environmental factors. This suggests that a lack of commitment and financial backing from the wider organizational or external environment can starve an MIS project of the resources it needs to succeed, creating an unfavorable climate for development.

Oct/Nov 2015

86. "The account holders were giving 80% business to take personal care of their service expectations and perceptions (the CRM perspective)." What action should the management of the bank take based on such MIS reports?

NODIA

lead to very huge losses," emphasizing the high stakes involved.

May/June 2015

95. In designing a customer database for a bank's MIS, which factor relates to segmenting customers into 'Income group' or 'Corporate Bodies'?
(A) Class of Customers
(B) Customer
(C) Operator
(D) The Range of Service

Ans :

(A) Class of Customers
The text breaks down the factors for a customer database. The factor 'Class of Customers' is explicitly defined with the examples "Income group, Corporate Bodies, etc." This factor is used for segmenting the customer base into different categories for targeted services and analysis, which is a core function of the MIS.

Oct/Nov 2012

96. What is the final crucial role of Management Information Systems mentioned in the concluding paragraphs?
(A) To provide a wide range of streamlined options for decision-makers
(B) To completely replace all existing legacy systems within an organization
(C) To automatically generate all external financial reports for shareholders
(D) To conduct and automate performance appraisals for all employees

Ans :

(A) To provide a wide range of streamlined options for decision-makers
In its final summary, the text states that MIS plays a "crucial role of providing a wide range of streamlined options from which decision-makers are able to make their preferred choices." This ensures that the choices made have a high probability of a positive outcome, guaranteeing viable decisions for the business.

May/June 2011

97. Which of the following is NOT an 'Environmental factor' affecting MIS?
(A) The lack of procedures and methodology.
(B) The lack of evaluation of the existing power.
(C) The lack of suitable consultants for design.
(D) The lack of serious consideration and adequate investment.

Ans :

(B) The lack of evaluation of the existing power.
The "lack of evaluation of the existing power" is listed as an 'Organizational factor', not an environmental one. Environmental factors include the lack of procedures, lack of suitable consultants, and lack of investment. This question tests the ability to differentiate between the specific items in the different categories of MIS issues.

Oct/Nov 2020

98. The main goal of a bank's MIS in relation to services is to offer a distinctive service to a broad range of customers with what?
(A) A variety of different service demands
(B) Uniform and standardized service demands
(C) Exclusively digital-only service demands
(D) Only investment and wealth management demands

Ans :

(A) A variety of different service demands
The text highlights that a bank serves a broad range of customers, including individuals, institutions, and government bodies, who have diverse needs. Therefore, the MIS must be designed to support a strategy that offers distinctive services to this wide customer base, which is "seeking a variety of service demands."

May/June 2023

99. Which keyword is associated with the need for a new MIS strategy to work with an organization's existing infrastructure?
(A) Compatible
(B) CRM
(C) SLR
(D) CRR

Ans :

(A) Compatible
The text advises that "before deciding on which MIS strategy to use, it is vital to ensure that the choice made is fully compatible with your current system." This keyword emphasizes the importance of seamless integration and avoiding conflicts with existing processes and technologies, and it is also listed in the 'Key Words' section.

NODIA

Oct/Nov 2009

13. Which of the following is NOT considered an advantage of securitization?

(A) It helps reduce lending concentration and improve liquidity

(B) It supports converting non-liquid loans into marketable securities

(C) It increases the need for additional capital for the originating bank

(D) It provides a diversified pool of uniform assets to financial institutions

Ans :

(C) It increases the need for additional capital for the originating bank

Securitization is advantageous precisely because it reduces the need for additional capital. By selling assets and moving them off the balance sheet, a bank lowers its risk-weighted assets, thereby decreasing its regulatory capital requirements. The other options listed are all recognized benefits, including improved liquidity, risk diversification, and the conversion of illiquid assets into tradable securities.

May/June 2023

14. The RBI Master Directions on securitization of standard assets apply to which of the following entities?

(A) Only to All-India Term financial institutions (FIs) and specified Development Banks like NABARD and SIDBI.

(B) Only to Scheduled commercial banks (excluding RRBs) and all types of Non-Banking Financial Companies (NBFCs).

(C) Only to Regional Rural Banks (RRBs) and all tiers of urban and rural cooperative banking institutions.

(D) All scheduled commercial banks (excluding RRBs), All-India Term FIs, Small Finance Banks (SFBs), and NBFCs.

Ans :

(D) All scheduled commercial banks (excluding RRBs), All-India Term FIs, Small Finance Banks (SFBs), and NBFCs.

The RBI's master directions on securitization have a broad scope of applicability. They cover all scheduled commercial banks, with the specific exclusion of Regional Rural Banks (RRBs). Additionally, the directions apply to All-India Term financial institutions, Small Finance Banks (SFBs), and Non-Banking Financial Companies (NBFCs), creating a uniform regulatory framework for these entities.

Oct/Nov 2018

15. According to the RBI's 2021 directions, what is the Minimum Retention Requirement (MRR) for an originator securitizing a pool of loans with an original maturity of 24 months or less?

(A) 5% of the book value of the loans

(B) 2% of the book value of the loans

(C) 10% of the book value of the loans

(D) 15% of the book value of the loans

Ans :

(A) 5% of the book value of the loans

The Reserve Bank of India has specified the Minimum Retention Requirement (MRR) to ensure originators maintain "skin in the game". For underlying loans that have an original maturity of 24 months or less, the MRR is set at 5% of the book value of the loans being securitized, encouraging prudent underwriting standards.

May/June 2016

16. What is the specified Minimum Retention Requirement (MRR) for loans with an original maturity of more than 24 months or for loans with bullet repayments?

(A) 5% of the book value of the loans

(B) 10% of the book value of the loans

(C) 7.5% of the book value of the loans

(D) 12% of the book value of the loans

Ans :

(B) 10% of the book value of the loans

For assets with longer tenors or specific risk structures, the RBI mandates a higher level of risk retention by the originator. The MRR is set at 10% of the book value of the loans being securitized for those with an original maturity of more than 24 months, as well as for loans featuring bullet repayments.

Oct/Nov 2016

17. In the case of residential mortgage-backed securities (RMBS), what is the Minimum Retention Requirement (MRR) for the originator, according to RBI directives?

(A) 10%, irrespective of the original maturity

(B) 5%, irrespective of the original maturity

(C) 10%, only if maturity is above 24 months

(D) 5%, only if maturity is 24 months or less

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CHAPTER 16
Securitization

Oct/Nov 2022

1. In which decade and country did the practice of securitization first emerge, primarily involving the pooling of home mortgages by government-backed agencies?
(A) 1960s in the United Kingdom
(B) 1970s in the United States
(C) 1980s in Japan
(D) 1990s in Germany

Ans :

(B) 1970s in the United States
The concept of securitization originated in the early 1970s in the US. The initial application involved government-backed agencies pooling home mortgages, which were then repackaged into interest-bearing securities for sale to investors. This marked the beginning of a significant financial innovation that would later expand to include various other asset classes across global markets.

May/June 2007

2. Which of the following best defines the term 'Obligor' in the context of a securitization transaction?
(A) A person or entity liable to pay a debt or discharge an obligation
(B) The entity that pools and transfers assets from its balance sheet
(C) The special purpose entity created to hold the securitized assets
(D) An investor who purchases the securities issued by the SPV

Ans :

(A) A person or entity liable to pay a debt or discharge an obligation
An Obligor is the individual or entity who originally owes the debt that is being securitized. For instance, in a securitization of auto loans, the car buyers who are making monthly payments are the obligors. Their legal responsibility to repay the debt forms the basis of the cash flows that are passed on to the investors.

Oct/Nov 2011

3. In a securitization process, what is the role of an 'Originator'?
(A) A person who promotes or establishes the Special Purpose Vehicle
(B) An investor who buys the final pass-through certificates
(C) A bank or company that transfers assets from its balance sheet to an SPV
(D) A person who is liable to pay the underlying debt or receivable

Ans :

(C) A bank or company that transfers assets from its balance sheet to an SPV
The Originator is the entity, typically a bank or a financial institution, that initially created the assets (e.g., made the loans). In a securitization transaction, the originator selects a pool of these assets and sells them to a Special Purpose Vehicle, thereby removing them from its own balance sheet in exchange for an immediate cash payment.

NODIA

May/June 2018

4. What does the term 'Securitization' fundamentally describe?
(A) The process of insuring bank loans against default risk using credit derivatives
(B) The regulatory process of classifying assets as standard or non-performing for capital adequacy purposes
(C) The act of taking physical possession of collateral against a defaulted loan under the SARFAESI Act
(D) The process of selling a single performing asset or a pool of them to a bankruptcy remote SPV for immediate payment

Ans :

(D) The process of selling a single performing asset or a pool of them to a bankruptcy remote SPV for immediate payment
Securitization is a structured finance process where an originator sells a single performing asset

Ans :

(C) Relying solely on the existing skills of employees without new training
The text suggests absorbing skillful employees and creating motivations for them. This is contrary to relying solely on existing skills without improvement. In fact, the 'Human resource upgrade' section emphasizes the need for training and knowledge enhancement, which aligns with the goal of solving MIS issues through a skilled workforce.

May/June 2006

91. The ability of an MIS to provide immediate updates on occurrences in a system is referred to as:
(A) Batch processing
(B) Asynchronous reporting
(C) Historical analysis
(D) Real-time updates

Ans :

(D) Real-time updates
The text describes the capacity of most MIS programs to give immediate updates on system occurrences. It clarifies that "By real-time, scholars simply refer to immediate updates of occurrences in a system." This capability is crucial for timely decision-making, especially in managing crises or dynamic operational situations.

Oct/Nov 2017

92. Which of the following best describes the role of an MIS as a tool for managers?
(A) It replaces the need for managerial experience, judgment, and intuition.
(B) It provides the required information to prepare them for decision making.
(C) It makes critical business decisions automatically, removing the manager from the process.
(D) It restricts the flow of information to prevent managers from making potential mistakes.

Ans :

(B) It provides the required information to prepare them for decision making.
An MIS is positioned as a supportive tool, not a replacement for managers. Its role is to act as an organizational information source that "provides the required information of the managers and makes them prepared for their decision making." It empowers them by providing the necessary data to define and solve problems effectively.

May/June 2008

93. Consider the main elements of MIS:
1. An integrated system for many users.
2. A computer system linking software via a database.
3. A user-machine interface for immediate searches.
4. Presenting information to all management levels.
5. Supporting operation and decision making.

Which of the above are listed as the main elements of MIS?
(A) 1, 2, and 3 only
(B) 2, 4, and 5 only
(C) 1, 3, 4, and 5 only
(D) 1, 2, 3, 4, and 5

Ans :

(D) 1, 2, 3, 4, and 5
The section 'The Main Elements of MIS' explicitly lists five key elements. All five statements in the question correspond exactly to the five elements mentioned in the text. These are: an integrated system, a linked computer system, a user-machine interface, presenting information to all levels, and supporting operations and decisions.

Oct/Nov 2013

94. A key reason that MIS is crucial in the modern-day generation is that:
(A) It greatly reduces the need for face-to-face communication within an office
(B) Any slight lapse in decision making can lead to very huge losses
(C) It is a mandatory requirement imposed by most international trade bodies
(D) It helps in significantly reducing the carbon footprint of an organization

Ans :

(B) Any slight lapse in decision making can lead to very huge losses
While discussing the importance of real-time updates and timely decision-making, the text specifically highlights its relevance in the current business environment. It states, "This is important for organisations in the modern-day generation where any slight lapse in decision making can

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the second stage, the SPV repackages these assets and issues tradable debt securities representing claims on the assets' cash flows to third-party investors.

Oct/Nov 2006

9. Based on the diagram titled "Fig 16.1 Securitization Process", which of the following is listed under 'USEFULNESS' of securitization?
(A) Risky for lenders
(B) Difficult to assess risk factor
(C) Portfolio diversification
(D) Division of pool into small parts

Ans :

(C) Portfolio diversification
The diagrammatic representation of the securitization process explicitly lists several points under the 'USEFULNESS' heading. Among the options provided, 'Portfolio diversification' is clearly mentioned as a benefit. The other options, such as being 'Risky for lenders' and 'Difficult to assess the risk factor', are listed under the 'LIMITATIONS' section of the same diagram.

May/June 2021

10. According to the "Fig 16.1 Securitization Process" diagram, what is a key limitation associated with securitization?
(A) It is difficult to assess the risk factor in the securities
(B) It helps in raising funds
(C) It provides quality returns to investors
(D) It boosts the liquidity of the originating institution

Ans :

(A) It is difficult to assess the risk factor in the securities
The diagram in the chapter outlines both the benefits and drawbacks of securitization. Under the 'LIMITATIONS' category, it is explicitly stated that it can be 'Difficult to assess the risk factor in securities'. This highlights a key challenge for investors, who must evaluate the credit quality of the underlying pooled assets, which can be a complex undertaking.

Oct/Nov 2010

11. One of the primary advantages of securitization for a bank is its effect on the balance sheet. What is this specific advantage?
(A) It significantly increases the total assets and corresponding liabilities shown on the balance sheet for accounting purposes.
(B) It converts highly liquid assets like government securities into illiquid, long-term assets on the balance sheet.
(C) It deliberately increases the bank's lending concentration in a single sector to simplify portfolio risk management.
(D) It removes loans from the balance sheet, which reduces the bank's regulatory capital requirements.

Ans :

(D) It removes loans from the balance sheet, which reduces the bank's regulatory capital requirements.
A key advantage for originating banks is that securitization allows them to sell assets and remove them from their balance sheets. This 'off-balance sheet' treatment reduces the bank's total risk-weighted assets, which in turn lowers the amount of regulatory capital it is required to hold. This frees up capital for other lending and business activities.

May/June 2005

12. How does securitization support the attainment of funds at a lower cost for an originator?
(A) By increasing the originator's direct exposure to borrower default risk, which lowers the cost of funds.
(B) By isolating the securitized assets from the originator's own bankruptcy risk.
(C) By mandating that the national government provides a full financial guarantee for all securitized assets.
(D) By systematically transferring funds from a more efficient capital market to a less efficient lending market.

Ans :

(B) By isolating the securitized assets from the originator's own bankruptcy risk.
Securitization allows for the creation of securities whose credit risk is based solely on the quality of the underlying assets, not the creditworthiness of the originator. Because the assets are held by a bankruptcy-remote SPV, they are isolated from the originator's own financial troubles. This de-linking of risk often results in a higher credit rating and lower funding costs.

NODIA

or a portfolio of such assets to a specially created entity known as a Special Purpose Vehicle (SPV). This transaction allows the originator to receive immediate cash, effectively converting illiquid assets into liquid funds, while transferring the assets off its balance sheet.

Oct/Nov 2025

5. What are the two key characteristics of a Special Purpose Vehicle (SPV) as defined in the context of securitization?

(A) It has unlimited business activities and is fully exposed to the originator's ongoing credit risk

(B) It is established for general corporate purposes and legally merges its risk profile with the originator

(C) Its activities are limited to a specific purpose and it is structured to be bankruptcy remote from the originator

(D) It primarily engages in deposit-taking activities and is not bankruptcy remote from its parent company

Ans :

(C) Its activities are limited to a specific purpose and it is structured to be bankruptcy remote from the originator

A Special Purpose Vehicle (SPV) is defined by two critical features. First, its activities are strictly limited to those required for the securitization, such as acquiring and holding the assets and issuing securities. Second, it is structured to be 'bankruptcy remote', meaning its financial status is isolated from the credit risk and potential bankruptcy of the originator.

May/June 2012

6. Who is referred to as a 'Sponsor' in a securitization transaction?

(A) The person who is liable to pay the underlying debt

(B) The person who establishes or promotes a special purpose distinct entity (SPV)

(C) The bank that transfers assets from its balance sheet

(D) The rating agency that assesses the credit quality of the securities

Ans :

(B) The person who establishes or promotes a special purpose distinct entity (SPV)

A sponsor is any individual or entity that takes the initiative to establish or promote a Special Purpose Vehicle (SPV). The sponsor plays a crucial role in setting up the structure of the securitization deal, distinct from the originator who provides the assets. In some cases, the originator and the sponsor can be the same entity.

Oct/Nov 2014

7. What is the initial step in the process of securitization?

(A) The SPV issues securities to third-party investors

(B) Investors receive principal and interest cash flows

(C) A credit rating agency assigns a rating to the asset pool

(D) The lender (originator) segregates homogenous loans into pools

Ans :

(D) The lender (originator) segregates homogenous loans into pools

The securitization process begins when the originating lender identifies and segregates specific loans, leases, or receivables from its portfolio. These assets are grouped into pools that are relatively homogenous in terms of credit type, maturity, and interest rate risk. This pooling is the foundational step before the assets are transferred to the Special Purpose Vehicle (SPV).

May/June 2019

8. The process of securitization is typically described as a two-stage process. Which option correctly identifies these two stages in their proper sequence?

(A) 1. Sale of assets to an SPV; 2. Repackaging and selling securities to investors

(B) 1. Repackaging of assets; 2. Sale of assets to an SPV

(C) 1. Issuance of tradable securities; 2. Collection of money into a pool

(D) 1. Obtaining a credit rating; 2. Transferring assets from the balance sheet

Ans :

(A) 1. Sale of assets to an SPV; 2. Repackaging and selling securities to investors

Securitization follows a distinct two-stage process. In the first stage, the originator sells a single asset or a pool of assets to a Special Purpose Vehicle (SPV) for an immediate cash payment. In

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Ans :

(B) 5%, irrespective of the original maturity
The RBI has created a special provision for residential mortgage-backed securities (RMBS). For this specific asset class, the Minimum Retention Requirement (MRR) for the originator is fixed at 5% of the book value of the loans being securitized. This 5% requirement applies irrespective of the original maturity of the underlying home loans.

May/June 2014

18. As per the RBI's 'Securitization of Standard Assets' Directions, 2021, what is the minimum ticket size for the issuance of securitization notes?
(A) ₹1 crore
(B) ₹10 lakh
(C) ₹25 lakh
(D) ₹50 lakh

Ans :

(A) ₹1 crore
To ensure that securitization markets are primarily accessed by institutional and sophisticated investors, the RBI has stipulated a minimum investment amount. The master direction specifies that the minimum ticket size for the issuance of securitization notes shall be ₹1 crore. This regulation aims to maintain the wholesale nature of this segment of the debt market.

Oct/Nov 2007

19. Which of the following asset types is generally considered INELIGIBLE for securitization by an originator?
(A) Residential mortgages with monthly repayments
(B) Auto loans with a fixed tenure
(C) Revolving credit facilities like credit card receivables
(D) Personal loans with a 3-year maturity

Ans :

(C) Revolving credit facilities like credit card receivables
The guidelines specify certain assets that are excluded from being securitized. Among these are revolving credit facilities, such as cash credit accounts and credit card receivables. The non-amortizing and uncertain nature of the principal balance on these facilities makes them unsuitable for the typical structure of a securitization transaction, which relies on predictable cash flows.

May/June 2025

20. Which of the following statements about assets eligible for securitization is incorrect?
(A) The underlying assets should represent the debt obligations of a homogeneous pool of obligors.
(B) On-balance sheet standard assets are generally eligible.
(C) Securitization exposures like mortgage-backed securities are not eligible for re-securitization.
(D) Assets purchased from other entities are eligible for securitization.

Ans :

(D) Assets purchased from other entities are eligible for securitization.
The rules clearly state that assets purchased from other entities are not eligible for securitization by the purchasing entity. The originator must be the entity that created the loan or receivable. This is to ensure that the entity with the original underwriting information and relationship with the obligor is the one conducting the securitization, maintaining a clear chain of responsibility.

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Oct/Nov 2019

21. What are the two primary reasons for stipulating a Minimum Holding Period (MHP) before loans can be securitized?
(A) To increase the originator's profit margin and to significantly speed up the overall transaction timeline.
(B) To allow the secondary market to stabilize and to obtain a higher, more favorable credit rating for the securities.
(C) To mitigate project implementation risk and to prove minimum recovery performance before sale.
(D) To meet specific international regulatory standards and to reduce the originator's administrative and servicing costs.

Ans :

(C) To mitigate project implementation risk and to prove minimum recovery performance before sale.

The logical sequence begins with the originator pooling the assets (2). Next, the originator sells this pool to the Special Purpose Vehicle (3). The SPV then issues securities to investors to raise funds (1). Finally, the cash raised from investors is used by the SPV to make the immediate payment to the originator for the assets purchased (4).

May/June 2005

56. "For underlying loans with original maturity of more than 24 months as well as loans with bullet repayments, the MRR shall be 10 per cent of the book value of the loans being securitised."
A bank securitizes a portfolio of corporate loans with a 5-year maturity and a single bullet repayment at the end of the term. What is the applicable MRR?
(A) 10%
(B) 5%
(C) 7.5%
(D) 15%

Ans :

(A) 10%
The source text provides two conditions that trigger a 10% Minimum Retention Requirement (MRR). The first is an original maturity of more than 24 months, and the second is the presence of a bullet repayment structure. Since the described loan portfolio meets both of these conditions (5-year maturity and bullet repayment), the applicable MRR is unambiguously 10%.

Oct/Nov 2022

57. Identify the incorrect statement regarding the RBI's framework for the securitization of standard assets.
(A) The directions apply to Small Finance Banks and NBFCs but exclude Regional Rural Banks
(B) The minimum ticket size for investment in securitization notes is ₹1 crore
(C) The MRR for residential mortgage-backed securities is 10% if the maturity exceeds 24 months
(D) Prudentially structured securitization is seen as an important facilitator in a well-functioning financial market

Ans :

(C) The MRR for residential mortgage-backed securities is 10% if the maturity exceeds 24 months
This statement is incorrect. The RBI guidelines have a specific carve-out for Residential Mortgage-Backed Securities (RMBS). For RMBS, the Minimum Retention Requirement (MRR) is set at 5% of the book value of the loans, irrespective of their original maturity. The 10% rule for maturities over 24 months does not apply to RMBS.

May/June 2018

58. A bank securitizes a pool of retail loans worth ₹500 crore. The loans have an average original maturity of 36 months. The bank decides to retain an interest of ₹60 crore in the pool, which ranks pari-passu with the sold portion. How is the MRR treated in this scenario?
(A) An amount equivalent to 10% of the sold portion (₹44 crore) is treated as MRR
(B) The entire ₹60 crore is treated as MRR
(C) An amount equivalent to 10% of the total pool (₹50 crore) is treated as MRR
(D) The bank is not compliant as it has retained more than the required MRR

Ans :

(A) An amount equivalent to 10% of the sold portion (₹44 crore) is treated as MRR
The required MRR for loans with maturity >24 months is 10%. The bank sold ₹440 crore (500-60). The rule states that if the retained portion is more than the required MRR, then the portion equivalent to 10% of the portion sold is treated as MRR. Therefore, 10% of ₹440 crore, which is ₹44 crore, would be treated as the MRR.

Oct/Nov 2016

59. Which of the following is NOT a reason mentioned for the creation of a bad bank in India?
(A) To help banks ease their provisioning requirements under the Basel Accord
(B) Concerns among lenders over huge haircuts they endure under the IBC process
(C) The fact that NPAs in some sectors like power are difficult to resolve through the IBC system
(D) To provide a government guarantee for all new loans issued by public sector banks

Ans :

(D) To provide a government guarantee for all new loans issued by public sector banks
The rationale for a bad bank is centered on resolving existing Non-Performing Assets

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lenders sell to investors." By allowing banks and NBFCs to sell their loans sooner, the revision enhances their ability to churn their portfolios, free up capital more quickly, and increase the overall activity in the securitization market.

May/June 2017

26. Consider the following statements regarding the Minimum Holding Period (MHP) for securitization:
Statement 1: For loans with an original maturity of more than 5 years and monthly repayments, the MHP is 12 instalments.
Statement 2: For loans with an original maturity of up to 2 years and weekly repayments, the MHP is 6 instalments.
Which of the statements is/are correct?
(A) Only Statement 1
(B) Only Statement 2
(C) Both Statement 1 and Statement 2
(D) Neither Statement 1 nor Statement 2

Ans :

(A) Only Statement 1
According to the MHP table, for loans with a maturity of over 5 years and a monthly repayment frequency, the required number of instalments is 12. Thus, Statement 1 is correct. However, for loans with a maturity up to 2 years and weekly repayments, the table specifies 12 instalments, not 6. Therefore, Statement 2 is incorrect.

Oct/Nov 2005

27. What is the primary design purpose of the Minimum Retention Requirement (MRR)?
(A) To guarantee a minimum fixed rate of return for all third-party investors in the securities.
(B) To provide a consistent and recurring source of fee income for the Special Purpose Vehicle (SPV).
(C) To meet the specific regulatory capital adequacy requirements of the Special Purpose Vehicle (SPV).
(D) To ensure the originator maintains a stake in the performance of the sold assets.

Ans :

(D) To ensure the originator maintains a stake in the performance of the sold assets.
The MRR is fundamentally a 'skin in the game' requirement. It is designed to ensure that the originating bank retains a portion of the risk associated with the securitized assets. This continuing stake incentivizes the originator to conduct thorough due diligence and maintain high underwriting standards for the loans it securitizes, aligning its interests with those of the investors.

May/June 2020

28. Under what specific conditions can bullet payment loans extended to individuals for agricultural activities be eligible for securitization?
(A) Only if the tenor of the loan is greater than 24 months and approved by the board.
(B) Only if the borrower has fully repaid the last two similar loans within 90 days of the due date.
(C) Only if the interest is serviced monthly, and the principal bullet payment is guaranteed by a third party.
(D) There are no conditions; all agricultural bullet payment loans are eligible as per RBI's priority sector norms.

Ans :

(B) Only if the borrower has fully repaid the last two similar loans within 90 days of the due date.
The guidelines provide a narrow exception for the eligibility of certain bullet payment loans. For agricultural loans with a tenor up to 24 months, they can be securitized only if the borrower has a proven repayment track record. This track record is defined as having fully repaid the entire amount of the last two such loans within 90 days of their respective due dates.

Oct/Nov 2015

29. Which of the following actions would violate the rules for maintaining the Minimum Retention Requirement (MRR)?
(A) Maintaining the MRR as a percentage of the unamortised principal
(B) Reducing the retained exposure due to proportionate repayment from borrowers
(C) The originator hedging the credit risk of the retained interest
(D) Allowing the MRR to absorb losses from the underlying pool

Ans :

(C) The originator hedging the credit risk of the retained interest
The regulations explicitly state that the level of commitment by originators, represented by the MRR, should not be reduced. This includes

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Oct/Nov 2018

47. What is a key concern regarding the Insolvency and Bankruptcy Code (IBC) that a bad bank structure aims to address?

(A) Lenders are concerned about the huge haircuts they often have to endure after an IBC resolution

(B) The IBC process is too fast, not allowing enough time for resolution

(C) The IBC does not allow for the liquidation of any company

(D) The IBC is only applicable to the power sector

Ans :

(A) Lenders are concerned about the huge haircuts they often have to endure after an IBC resolution

While the IBC has been a landmark reform, a significant concern for lenders has been the large haircuts, or losses, they must accept on their original principal in many resolutions. A bad bank structure is seen as an alternative mechanism that could potentially lead to better and more controlled recoveries over a longer period, possibly reducing the final loss for the banking system.

May/June 2007

48. What is the shareholding percentage of Public Sector Banks (PSBs) in the National Asset Reconstruction Company Limited (NARCL)?

(A) 100%

(B) 51%

(C) 49%

(D) 26%

Ans :

(B) 51%

The ownership structure of NARCL, India's new bad bank, is designed to be majority-owned by the public sector banking system. The guidelines specify that Public Sector Banks will collectively hold a controlling stake of 51% in the company. The remaining 49% shareholding is held by other financial institutions, investors, and private sector banks.

Oct/Nov 2025

49. The Government of India has provided a guarantee for the security receipts issued by NARCL. What is the total value of this guarantee?

(A) ₹10,500 Crore

(B) ₹30,600 Crore

(C) ₹25,000 Crore

(D) ₹50,000 Crore

Ans :

(B) ₹30,600 Crore

To enhance the credibility and liquidity of the security receipts (SRs) issued by NARCL as payment for acquired NPAs, the Government of India has extended a significant financial backstop. A government guarantee worth ₹30,600 Crore is available for the SRs issued by NARCL, which makes them more attractive for banks to hold on their books.

May/June 2012

50. A consortium of banks led by SBI sells a large stressed corporate asset to NARCL. Which entity will be primarily responsible for the professional management and resolution of this acquired asset?

(A) The India Debt Resolution Company Limited (IDRCL)

(B) The lead bank, SBI

(C) The National Asset Reconstruction Company Limited (NARCL)

(D) The Reserve Bank of India

Ans :

(A) The India Debt Resolution Company Limited (IDRCL)

The new bad bank structure in India operates on a twin-entity model. While NARCL is the entity that acquires the stressed assets from the banks, the actual "workout" or resolution process is handled by a separate entity. The India Debt Resolution Company Limited (IDRCL) is the professional asset management company tasked with managing the acquired assets and working towards their resolution.

Oct/Nov 2014

51. What is the shareholding structure of the India Debt Resolution Company Limited (IDRCL)?

(A) 51% by Public Sector Banks and 49% by private lenders

(B) 100% by the Government of India

(C) 49% by State-owned Banks and the balance by private sector lenders

(D) 51% by private sector lenders and 49% by Public Sector Banks

Ans :

NODIA

The RBI mandates a proactive approach to the management of stressed assets. Banks are required to have a board-approved policy to identify and list financial assets for potential sale. This internal identification and listing process must be conducted at a minimum frequency of once every year, with a preference for it to be done at the beginning of the year.

May/June 2006

34. What method is recommended by the RBI for banks selling stressed assets to ARCs to ensure better price discovery?
(A) A public process, preferably via e-auction platforms.
(B) Bilateral negotiations with a single preferred ARC chosen by the bank's board.
(C) A sealed-bid process open exclusively to public sector banks and government entities.
(D) Offering the assets at a fixed discount to the book value, as determined by an internal committee.

Ans :

(A) A public process, preferably via e-auction platforms.
To attract a wide variety of buyers and achieve a market-driven price, the RBI advises against closed-door sales. It recommends that the invitation for bids should be publicly solicited to enable broad participation. The use of e-auction platforms is specifically highlighted as a desirable method to facilitate an open and transparent process, which is expected to result in better price discovery.

Oct/Nov 2017

35. When a bank sells financial assets to an ARC, what forms of consideration can it receive?
(A) Only cash
(B) Only security receipts issued by the ARC
(C) Cash, or bonds or debentures, or security receipts
(D) Only equity shares in the ARC

Ans :

(C) Cash, or bonds or debentures, or security receipts
The guidelines provide flexibility in the form of payment for stressed asset sales. A bank selling assets to an Asset Reconstruction Company (ARC) can receive the sale consideration in the form of cash. Alternatively, it can receive bonds or debentures issued by the ARC. Furthermore, the bank can also invest in security receipts (SRs) or Pass-Through Certificates (PTCs) issued by the ARC.

May/June 2008

36. Which category of assets, besides NPAs, may also be acquired by an Asset Reconstruction Company (ARC) from an originator?
(A) Assets classified as SMA-0
(B) Assets classified as SMA-2
(C) Only assets that are fully standard with no signs of stress
(D) Assets classified as SMA-2

Ans :

(D) Assets classified as SMA-2
The scope of acquisition for ARCs is not limited to assets that have already turned into Non-Performing Assets (NPAs). The guidelines explicitly permit ARCs to acquire assets that are classified as Special Mention Account-2 (SMA-2) in the books of the originator. This allows for earlier intervention in stressed accounts before they formally become NPAs.

Oct/Nov 2013

37. What is the normal maximum period within which an ARC is required to resolve the assets it has acquired?
(A) Two years from the date of acquisition
(B) Three years from the date of acquisition
(C) Five years from the date of acquisition
(D) Ten years from the date of acquisition

Ans :

(C) Five years from the date of acquisition
ARCs are expected to work towards a timely resolution of the stressed assets they acquire. The regulations stipulate a specific timeline for this process. The assets acquired by an ARC are required to be resolved within a period that shall normally not exceed five years from the date on which the assets were acquired from the originating bank or FI.

May/June 2015

38. The Board of an ARC can extend the resolution period for an acquired asset beyond the normal five-year timeline up to a maximum of how many years from the original date of acquisition, subject to conditions?
(A) 6 years

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The Minimum Holding Period (MHP) serves two critical prudential purposes. Firstly, it ensures that any risks related to project implementation have passed, so investors are not exposed to them. Secondly, it forces the originator to hold the loan long enough to demonstrate a minimum recovery performance, which serves as proof of the quality of its underwriting standards.

May/June 2009

22. From which point is the Minimum Holding Period (MHP) for a loan counted before it can be securitized?

(A) From the date the formal loan application is submitted by the prospective borrower.
(B) From the date of loan disbursement or the borrower's acquisition of the asset.
(C) From the date of the in-principle sanction of the loan facility by the credit committee.
(D) From the date the originator's management decides to include the asset in a securitization pool.

Ans :

(B) From the date of loan disbursement or the borrower's acquisition of the asset.
The MHP clock starts ticking only when the loan's purpose is fulfilled and the borrower's repayment obligation truly begins. This is defined as the date of full disbursement of the loan for a specific activity, the date of acquisition of the asset (like a car or house) by the borrower, or the date of project completion.

Oct/Nov 2011

23. A bank has issued a car loan with an original maturity of 4 years (48 months) and a monthly repayment schedule. The bank now wishes to include this loan in a securitization pool. According to the MHP table, what is the minimum number of monthly instalments that must have been paid by the borrower before this loan becomes eligible?

(A) 3
(B) 9
(C) 12
(D) 6

Ans :

(D) 6
The loan has a maturity of 4 years, which falls into the category of 'more than 2 years and up to 5 years'. The repayment frequency is monthly. According to the provided table for Minimum Holding Period, for this maturity bucket and monthly repayment frequency, a minimum of 6 instalments must have been paid before the loan is eligible for securitization.

May/June 2010

24. An NBFC wants to securitize a pool of personal loans, each with an original maturity of 18 months and a quarterly repayment frequency. Based on the MHP norms, what is the minimum number of instalments required to have been paid for these loans to be eligible?

(A) 2
(B) 3
(C) 4
(D) 6

Ans :

(A) 2
The loans have an original maturity of 18 months, which is 'upto 2 years'. The repayment frequency is quarterly. Consulting the Minimum Holding Period table for this specific combination, the requirement is for a minimum of 2 quarterly instalments to have been paid. This ensures a sufficient performance history before the loan is sold to investors.

Oct/Nov 2024

25. "RBI has since revised/reduced minimum holding period from 12 months to six months. The revised norms for securitization are expected to boost the volumes of loans that lenders sell to investors."
What is the primary expected outcome of the RBI's revision of the Minimum Holding Period (MHP)?

(A) An increase in the risk profile of securitized assets
(B) A decrease in the number of eligible loans for securitization
(C) A boost in the volumes of loans sold by lenders to investors
(D) A mandatory increase in the Minimum Retention Requirement (MRR)

Ans :

(C) A boost in the volumes of loans sold by lenders to investors
The provided text explicitly states that the reduction of the Minimum Holding Period is "expected to boost the volumes of loans that

NODIA

under that specific securitization, it must make provisions on the assets.

Oct/Nov 2023

43. What was the name of the entity suggested by the Economic Survey 2017 to act as a 'bad bank' for buying high-value NPAs from Indian banks?

(A) National Asset Management Agency (NAMA)
(B) National Asset Reconstruction Company Limited (NARCL)
(C) India Debt Resolution Company Limited (IDRCL)
(D) Public Sector Asset Rehabilitation Agency (PARA)

Ans :

(D) Public Sector Asset Rehabilitation Agency (PARA)
The idea of a centralized bad bank to deal with the NPA problem was formally proposed in the Economic Survey of 2017. The survey suggested the creation of a specific entity for this purpose, naming it the Public Sector Asset Rehabilitation Agency, or PARA. This agency was envisioned to buy high-value NPAs from public sector banks to clean up their balance sheets.

May/June 2016

44. What is the fundamental operational model of a 'bad bank'?

(A) It provides new working capital loans to defaulting companies to help them revive their operations.
(B) It purchases bad loans from banks at a discount for subsequent recovery.
(C) It acts as a credit insurer for all new loans sanctioned by commercial banks against a premium.
(D) It restructures the senior management team of commercial banks that have persistently high NPAs.

Ans :

(B) It purchases bad loans from banks at a discount for subsequent recovery.
A bad bank is technically a specialized asset reconstruction company. Its core function is to purchase non-performing assets (NPAs), or 'bad loans', from commercial banks. It typically buys these assets at a significant discount to their face value and then focuses on recovering the maximum possible amount from the defaulter over time through various resolution mechanisms.

Oct/Nov 2009

45. Which of the following is a primary rationale for establishing a bad bank?

(A) To increase the mandatory provisioning requirement for all commercial banks in the system.
(B) To merge the bad assets of a bank with its good assets to improve the bank's overall valuation.
(C) To absorb NPAs, easing bank provisioning and allowing them to resume lending.
(D) To take over direct management and day-to-day operations of the defaulting firms.

Ans :

(C) To absorb NPAs, easing bank provisioning and allowing them to resume lending.
A major benefit of a bad bank is that it cleanses the balance sheets of commercial banks. By selling their NPAs to the bad bank, commercial banks reduce their gross NPAs and the associated provisioning requirements under Basel norms. This frees up capital and management bandwidth, helping them to get on with their core business of lending and credit growth.

May/June 2023

46. As an international precedent, the National Asset Management Agency was established in 2009 in which country to respond to its financial crisis?

(A) The United States
(B) The United Kingdom
(C) Greece
(D) Ireland

Ans :

(D) Ireland
The 2007-2010 global financial crisis prompted several countries to create bad banks. In Ireland, the government established the National Asset Management Agency (NAMA) in 2009. Its specific purpose was to acquire property development loans from Irish banks to cleanse their balance sheets and help stabilize the country's financial system, which had been severely impacted by a property market collapse.

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prohibitions against either hedging the credit risk of the retained interest or selling it. The purpose is to ensure the originator remains genuinely exposed to the performance of the assets, upholding the 'skin in the game' principle throughout the life of the transaction.

May/June 2013

30. Match the loan characteristic (List-I) with the corresponding Minimum Holding Period in number of monthly instalments (List-II).

	List-I		List-II
P.	Original maturity of 1.5 years	1.	12
Q.	Original maturity of 3 years	2.	2.6
R.	Original maturity of 6 years	3.	3.3

(A) P-1, Q-2, R-3
(B) P-2, Q-1, R-3
(C) P-3, Q-1, R-2
(D) P-3, Q-2, R-1

Ans :

(D) P-3, Q-2, R-1
P (1.5 years) falls in the 'upto 2 years' category, requiring 3 monthly instalments. Q (3 years) falls in the 'more than 2 years and up to 5 years' category, requiring 6 monthly instalments. R (6 years) falls in the 'more than 5 years' category, requiring 12 monthly instalments. Therefore, the correct matching is P-3, Q-2, R-1.

Oct/Nov 2021

31. What is the key difference in the accounting and asset classification of MRR for retail loans versus other types of loans?
(A) For retail loans, the bank may maintain a consolidated MRR account, while for other loans, borrower-wise accounts are mandatory
(B) Only borrower-wise accounts are permitted for MRR
(C) For other loans, a consolidated account can be maintained for the MRR
(D) There is no difference in the accounting treatment between retail and other loans

Ans :

(A) For retail loans, the bank may maintain a consolidated MRR account, while for other loans, borrower-wise accounts are mandatory
The rules provide operational flexibility for retail loan securitizations. The originating bank can maintain a single consolidated account for the MRR amount from a pool of retail loans. For all other types of loans (e.g., corporate loans), the bank must maintain separate borrower-wise accounts for the proportionate amounts retained, making the tracking process more granular.

May/June 2024

32. An originating bank acts as the servicing agent for a pool of securitized loans it sold to another bank. It observes that several loans in the transferred pool are overdue. What is the implication for the originating bank's own books?
(A) There is no implication as the loans have already been sold
(B) It should use the overdue status to classify its own retained MRR exposure as NPA
(C) It must inform the regulator but take no accounting action
(D) It only needs to classify the loans as NPA in the assignee bank's books

Ans :

(B) It should use the overdue status to classify its own retained MRR exposure as NPA
When the originator also acts as the servicing agent, it has direct knowledge of the performance of the sold assets. The guidelines require that this information on the overdue status of the transferred loans must be used as the basis for the asset classification of the originator's own retained MRR exposure, potentially classifying it as an NPA.

Oct/Nov 2008

33. According to RBI guidelines, how frequently should banks, with their Board's approval, identify and list specific financial assets for sale to institutions like Asset Reconstruction Companies (ARCs)?
(A) At least once every two years, following the biennial board review.
(B) Annually, preferably at the start of the year.
(C) On a quarterly basis, in line with quarterly financial reporting cycles.
(D) Only when directed by the RBI on a case-by-case basis during inspections.

Ans :

(B) Annually, preferably at the start of the year.

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(C) 49% by State-owned Banks and the balance by private sector lenders

Unlike NARCL, the IDRCL is structured to be majority-owned and managed by private sector entities, bringing in specialized resolution expertise. State-owned banks hold a 49% stake in IDRCL, making them minority shareholders. The majority stake and management control lie with private sector lenders and financial institutions, ensuring a professional and market-oriented approach to debt resolution.

May/June 2019

52. Among the public sector banks, which three banks each acquired a 13.27% stake in NARCL?

(A) Bank of Baroda, Canara Bank, and Punjab National Bank

(B) Bank of India, Central Bank of India, and UCO Bank

(C) Punjab National Bank, SBI, and Bank of Baroda

(D) SBI, Union Bank of India, and Indian Bank

Ans :

(D) SBI, Union Bank of India, and Indian Bank

The initial shareholding structure of NARCL involved significant stakes from major public sector banks. State Bank of India (SBI), Union Bank of India, and Indian Bank each took a substantial stake of 13.27% in the newly formed asset reconstruction company. Punjab National Bank (PNB) also acquired a stake, but at a lower level of about 2%.

Oct/Nov 2006

53. Assertion (A): An SPV in a securitization transaction is structured to be 'bankruptcy remote'.

Reason (R): This isolation of assets from the originator's credit risk allows the securities issued by the SPV to potentially achieve a higher credit rating than the originator itself.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A)

(B) Both (A) and (R) are true but (R) is not the correct explanation of (A)

(C) (A) is true but (R) is false

(D) (A) is false but (R) is true

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A)

The assertion that an SPV is bankruptcy remote is a core principle of securitization. The reason correctly explains the key benefit of this structure. By legally isolating the assets, their credit quality stands on its own. This allows investors to focus only on the risk of the asset pool, often resulting in a higher credit rating and lower borrowing costs than the originator could achieve directly.

May/June 2021

54. Which of the following statements about the securitization process is correct?

I. It converts illiquid assets into tradable securities.

II. The securities issued are often referred to as Pass-through Certificates or Collateralized Debt Obligations.

III. The originator continues to hold the assets on its balance sheet after the transaction.

(A) I and III only

(B) I and II only

(C) II and III only

(D) I, II, and III

Ans :

(B) I and II only

Securitization is fundamentally a process of transforming illiquid assets like loans into liquid, tradable securities. These securities take various forms, including Pass-through Certificates (PTCs), Bonds, or Collateralized Debt Obligations (CDOs). A key feature of the process is that the assets are transferred from the originator's balance sheet to the SPV, making statement III incorrect.

Oct/Nov 2010

55. The two-stage process of securitization involves several steps. Arrange the following steps in their correct chronological order:

1. SPV issues tradable debt securities to investors.
2. Originator pools homogenous assets.
3. Originator sells the asset pool to an SPV.
4. SPV uses proceeds from security issuance to pay the originator.

(A) 2, 1, 3, 4

(B) 3, 2, 4, 1

(C) 1, 4, 2, 3

(D) 2, 3, 1, 4

Ans :

(D) 2, 3, 1, 4

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(B) 8 years
(C) 7 years
(D) 10 years

Ans :

(B) 8 years
While the normal resolution period is five years, the framework allows for an extension in cases where resolution proves to be more complex. If assets remain unresolved at the end of five years, the Board of the ARC has the authority to increase the period of realization up to a maximum of eight years from the original acquisition date, subject to specific conditions.

Oct/Nov 2012

39. To whom can an Asset Reconstruction Company (ARC) issue Security Receipts (SRs)?
(A) To any retail investor
(B) Only other Asset Reconstruction Companies
(C) Both retail investors and QIBs
(D) Only to Qualified Institutional Buyers (QIBs)

Ans :

(D) Only to Qualified Institutional Buyers (QIBs)
The market for Security Receipts (SRs) is restricted to sophisticated investors. The regulations mandate that an ARC shall issue SRs only to Qualified Institutional Buyers (QIBs). Furthermore, any subsequent transfer or assignment of these SRs is also restricted and can only be made in favour of other QIBs, maintaining the wholesale nature of this market.

May/June 2011

40. What is the minimum percentage of Security Receipts (SRs) that an ARC must invest in and hold on an ongoing basis for each scheme it launches?
(A) 15%
(B) 5%
(C) 10%
(D) 20%

Ans :

(A) 15%
Similar to the MRR for originators, ARCs also have a mandatory "skin in the game" requirement. For every scheme set up to acquire financial assets, the ARC is required to invest in the SRs an amount that is not less than 15% of the total receipts issued. This 15% holding must be maintained on an ongoing basis until all SRs are redeemed.

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Oct/Nov 2020

41. How frequently are ARCs required to get the rating/grading of their issued Security Receipts (SRs) reviewed by an approved Credit Rating Agency (CRA)?
(A) Annually, as on March 31
(B) Quarterly, at the end of each quarter
(C) Semi-annually, as on June 30 and December 31 each year
(D) Only once at the time of issuance

Ans :

(C) Semi-annually, as on June 30 and December 31 each year
To ensure transparency and provide updated valuations for investors (QIBs), the ratings of SRs must be regularly monitored. After obtaining an initial rating within six months of asset acquisition, ARCs are mandated to have the rating/grading reviewed by a CRA twice a year. These reviews must be conducted as of June 30 and December 31 every year.

May/June 2022

42. Effective from April 1, 2018, what is the investment threshold that triggers a provisioning requirement for a bank investing in SRs backed by its own stressed assets sold to an ARC?
(A) When the investment is more than 10% per cent of all SRs issued under that specific securitization
(B) When the investment is more than 50% of the SRs
(C) When the investment is more than 25% of the SRs
(D) When the investment is more than 15% of the SRs

Ans :

(A) When the investment is more than 10% per cent of all SRs issued under that specific securitization
To prevent banks from effectively funding the purchase of their own NPAs without adequate provisioning (a practice known as "evergreening"), a threshold was set. With effect from April 1, 2018, this threshold was reduced. If a bank's investment in SRs backed by its own sold assets exceeds 10% per cent of all SRs issued

(NPAs). It aims to clean bank balance sheets, ease provisioning, and provide an alternative to the IBC where haircuts are high or resolution is complex. It is not designed to provide guarantees for new lending activities undertaken by commercial banks; its focus is on legacy stressed assets.

May/June 2014

60. Identify the correct pair related to the new Bad Bank structure in India.
(A) NARCL: Authorized Capital of ₹50 Crore
(B) NARCL: Receives license under SARFAESI Act, 2002
(C) IDRCL: 51% shareholding by Public Sector Banks
(D) IDRCL: Manages assets and also acquires them from banks

Ans :

(B) NARCL: Receives license under SARFAESI Act, 2002
NARCL was granted a license by the RBI on October 4, 2021, under Section 3 of the SARFAESI Act, 2002, which authorizes it to operate as an asset reconstruction company. Option A is incorrect (NARCL's authorized capital is ₹2750 Crore). Option B is incorrect (IDRCL has 49% PSB stake). Option D is incorrect (NARCL acquires, IDRCL manages).

Oct/Nov 2007

61. What are the securities issued in a securitization transaction, such as Bonds, Pass-through Certificates (PTCs), or Collateralized Debt Obligations (CDOs), backed by?
(A) The general creditworthiness and the overall capital adequacy of the originating bank.
(B) A specific and explicit financial guarantee from the Reserve Bank of India.
(C) The cash flows generated from the pooled underlying debt obligations.
(D) The future profitability and operational efficiency of the Special Purpose Vehicle.

Ans :

(C) The cash flows generated from the pooled underlying debt obligations.
The value and repayment of securities issued in a securitization are directly linked to the performance of the underlying assets. Investors are repaid from the principal and interest cash flows collected from the original obligors (e.g., mortgage or auto loan payments). The securities are claims on these specific cash flows, not on the originator or the SPV itself.

May/June 2025

62. According to the securitization process diagram (Fig 16.1), what do the buyers of securities like "Mortgage Backed Securities" receive?
(A) Ownership in the originating bank
(B) A fixed dividend from the SPV
(C) A share of the originator's profits
(D) Investment/mortgage payments

Ans :

(D) Investment/mortgage payments
The diagram clearly illustrates the flow of funds in the process. The box pointing from "Buyers of these securities" states they "get invest/ mortgage payments". This signifies that the cash flows generated by the original borrowers (e.g., mortgage payments) are passed through the structure to the investors who purchased the securities, representing their return on investment.

Oct/Nov 2019

63. How does securitization contribute to the development of the long-term debt market?
(A) By providing a better matching of assets and liabilities
(B) By exclusively creating short-term, liquid instruments
(C) By reducing the overall supply of debt instruments
(D) By increasing the bankruptcy risk for originators

Ans :

(A) By providing a better matching of assets and liabilities
Securitization allows banks to convert long-term assets (like 20-year home loans) into cash, which helps in managing their asset-liability maturity profile. More importantly, it creates a new class of long-term, tradable debt securities. This deepens the long-term debt market by providing investors with a wider range of instruments and issuers with an alternative source of long-term funding.

May/June 2009

64. The RBI's master directions on securitization were issued after considering public comments on draft rules released on which date?

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Oct/Nov 2021

73. A bank securitizes a pool of loans with an original maturity of 7 years and quarterly repayments. What is the Minimum Holding Period in terms of the number of instalments?
(A) 2
(B) 3
(C) 4
(D) 6

Ans :

(C) 4
The loan maturity of 7 years falls into the 'more than 5 years' category. The repayment frequency is quarterly. Referring to the MHP table, the minimum number of instalments required for loans in this category with quarterly repayments is 4. This holding period ensures the bank has observed the loan's performance for at least one full year before selling it.

May/June 2024

74. When a bank invests in security receipts (SRs) issued by an ARC, these SRs are classified as what in the bank's books?
(A) Investments
(B) Loans and Advances
(C) Fixed Assets
(D) Other Liabilities

Ans :

(A) Investments
The guidelines are clear on the accounting treatment for securities received from an ARC. Whether a bank receives bonds, debentures, or security receipts (SRs) as consideration for the sale of assets, or if it makes a separate investment in them, these instruments must be classified as 'Investments' in the bank's books of accounts.

Oct/Nov 2008

75. A 'bad bank' structure is seen as a potential solution for NPAs in the power sector that are difficult to resolve through the IBC. What is a key reason for this difficulty?
(A) Power sector loans are generally too small in value to be admitted into the IBC process.
(B) The IBC code legally prohibits the resolution or liquidation of any public utility assets.
(C) Lenders in the power sector are contractually forbidden from taking any haircut on their principal.
(D) Their viability is hindered by a lack of coal linkages and power purchase agreements.

Ans :

(D) Their viability is hindered by a lack of coal linkages and power purchase agreements.
The text specifically highlights that NPAs in the power sector can be challenging to resolve via the IBC. This is because the viability of a power asset often depends on external factors like assured fuel supply (coal linkages) and long-term buyers for the electricity (purchase power agreements). The absence of these makes it difficult for a resolution applicant to formulate a viable plan.

May/June 2006

76. Identify the incorrect pair regarding the entities involved in India's bad bank framework.
(A) NARCL: Incorporated in July 2021
(B) NARCL: Paid-up Capital of ₹20 Cr
(C) IDRCL: Incorporated on 3rd September, 2021
(D) IDRCL: Authorized Capital of ₹50 Cr

Ans :

(B) NARCL: Paid-up Capital of ₹20 Cr
The information provided states that NARCL has a paid-up capital of ₹1409.05 Crore. The figure of ₹20 Crore corresponds to the paid-up capital of IDRCL, not NARCL. The other pairs are correct: NARCL was incorporated in July 2021, IDRCL on September 3, 2021, and IDRCL's authorized capital is indeed ₹50 Crore.

Oct/Nov 2017

77. The process of securitization allows banks to facilitate the transfer of funds from a less efficient debt market to a more efficient one. How is this achieved?
(A) By creating highly complex and illiquid derivative instruments that are difficult to price.
(B) By requiring the central government to act as a mandatory intermediary in all transactions.
(C) By converting bank loans into tradable capital market instruments.
(D) By limiting the investment in these new securities to only domestic retail investors.

Ans :

(C) By converting bank loans into tradable capital market instruments.
Banks operate in the primary lending market. By securitizing loans, they transform them into

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Oct/Nov 2005

69. When an ARC acquires stressed financial assets, what is the guideline regarding the takeover of outstanding lending commitments from the original bank?

(A) The ARC must legally take over all outstanding commitments to lend further to the borrower.

(B) The ARC can choose to take over commitments, but only for assets classified as SMA-2.

(C) The acquisition should not include taking over any outstanding lending commitments.

(D) The takeover of commitments is mandatory but can be immediately transferred to another partner bank.

Ans :

(C) The acquisition should not include taking over any outstanding lending commitments.
The role of an ARC is to resolve existing debt, not to become a primary lender. Therefore, the guidelines specify that when an ARC acquires funded assets, this acquisition should not include any takeover of outstanding commitments that the original bank or FI had to lend further. The ARC's focus remains on the recovery of the already disbursed amount.

May/June 2020

70. For an ARC to arrive at the Net Asset Value (NAV) of the Security Receipts it has issued, on what basis must the SRs be rated?

(A) On a 'liquidity rating scale'

(B) On a 'recovery rating scale'

(C) On a 'promoter rating scale'

(D) On a standard 'corporate credit rating scale'

Ans :

(B) On a 'recovery rating scale'
Since the value of an SR depends on the amount expected to be recovered from the underlying stressed asset, a special rating scale is used. The guidelines require ARCs to get the SRs rated on a 'recovery rating scale'. This specific scale provides investors (QIBs) with an assessment of the likelihood and quantum of expected recovery from the non-performing assets backing the SRs.

Oct/Nov 2015

71. Consider the following statements about NARCL and IDRCL:

1. NARCL has an authorized capital of ₹2750 Crore, while IDRCL has an authorized capital of ₹50 Crore.
2. Public Sector Banks have a 51% stake in NARCL and a 49% stake in IDRCL.
3. NARCL acquires stressed assets, while IDRCL is responsible for their resolution management.

Which of the above statements are correct?

(A) 1 and 2 only

(B) 2 and 3 only

(C) 1 and 3 only

(D) 1, 2, and 3

Ans :

(D) 1, 2, and 3
All three statements are factually correct as per the provided text. Statement 1 correctly identifies the authorized capital of both entities. Statement 2 accurately describes the shareholding structure, with PSBs being majority owners in NARCL and minority in IDRCL. Statement 3 correctly defines the distinct roles of the two entities in the twin-structure bad bank model.

May/June 2013

72. Which of the following is NOT an advantage of securitization for the originator?

(A) It increases the concentration of lending risk for the originator.

(B) It facilitates the transfer of funds from a less efficient to a more efficient debt market.

(C) It supports the attainment of new funding at potentially lower costs for the originator.

(D) It provides a better matching of long-term assets and short-term liabilities on the balance sheet.

Ans :

(A) It increases the concentration of lending risk for the originator.
Securitization is a tool for risk management and diversification, not concentration. By selling off a pool of assets (e.g., all auto loans from a specific region), the originator reduces its concentration risk in that particular segment. Therefore, the statement that it increases risk concentration is incorrect; it actually helps reduce lending concentration and improve liquidity.

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Oct/Nov 2025

91. What is the primary function of the India Debt Resolution Company Limited (IDRCL) in the bad bank ecosystem?
(A) To acquire stressed assets from banks
(B) To provide the government guarantee for security receipts
(C) To regulate the activities of all Asset Reconstruction Companies
(D) To professionally manage and resolve the assets acquired by NARCL

Ans :

(D) To professionally manage and resolve the assets acquired by NARCL
The Indian bad bank framework is a two-part structure. NARCL acts as the principal, acquiring the NPAs from banks. IDRCL, on the other hand, acts as the agent. It is an asset management company whose sole function is to take the assets acquired by NARCL and manage them professionally, working towards a resolution or recovery.

May/June 2012

92. As per the guidelines, which of the following is a permissible way for the MRR exposure to reduce?
(A) Through the sale of the retained interest after one year
(B) Through the absorption of losses from the asset pool
(C) By replacing the retained assets with better-performing assets
(D) By obtaining a credit default swap to hedge the risk

Ans :

(B) Through the absorption of losses from the asset pool
The MRR is designed to be a loss-absorbing buffer. The guidelines state that the MRR should be maintained on an ongoing basis except for reduction due to proportionate repayment by borrowers or through the absorption of losses. When the underlying assets default and losses occur, the originator's retained interest (the MRR) absorbs its pro-rata share of these losses.

Oct/Nov 2014

93. A bank maintains a consolidated account for the MRR on a securitized pool of retail loans. How should the overdue status of this consolidated MRR be determined?
(A) Based on the overdue status of the single worst-performing loan within the entire pool.
(B) It remains standard as long as at least 51% of the underlying pool is performing.
(C) Based on the repayment schedule established for the consolidated MRR amount.
(D) Based on the external credit rating assigned to the securities issued by the SPV.

Ans :

(C) Based on the repayment schedule established for the consolidated MRR amount.
When a consolidated MRR account is maintained for retail loans, its performance is not judged on an individual loan basis. Instead, the bank must establish a clear periodicity and amount for the amortisation of this consolidated MRR. The overdue status of the MRR is then determined based on whether these scheduled repayments for the consolidated amount are being received on time.

May/June 2019

94. The securitization framework allows for the sale of stressed assets to entities other than ARCs. Which entities are mentioned?
(A) Only other Public Sector Banks
(B) Only foreign institutional investors
(C) The Reserve Bank of India
(D) Other banks, NBFCs, and FIs

Ans :

(D) Other banks, NBFCs, and FIs
While Asset Reconstruction Companies (ARCs) are the primary buyers of stressed assets, the market is not exclusive to them. The guidelines explicitly state that banks may offer the assets for sale to ARCs and "other banks/NBFCs/FIs, etc." This allows for a broader market, including inter-bank sales of stressed loan portfolios, potentially improving price discovery.

Oct/Nov 2006

95. What is the key difference in the ownership structure between NARCL and IDRCL?
(A) NARCL is majority-owned by PSBs (51%), while IDRCL is minority-owned by PSBs (49%)
(B) IDRCL is majority-owned by PSBs (51%), while NARCL is minority-owned by PSBs (49%)

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securities that can be traded in the deeper and more efficient secondary capital market. This process bridges the two markets, allowing capital market funds to be channeled into bank lending, thereby improving the overall efficiency of fund allocation in the economy.

May/June 2008

78. "Every ARC shall obtain initial rating/grading of SRs from an approved Credit Rating Agency within a period of six months from the date of acquisition of assets..."
What is the maximum time limit for an ARC to obtain the initial credit rating for the Security Receipts after acquiring the underlying assets?
(A) 30 days
(B) 90 days
(C) One year
(D) Six months

Ans :

(D) Six months
The source text provides a clear and direct answer. It explicitly mandates that every Asset Reconstruction Company (ARC) must secure an initial rating or grading for its Security Receipts (SRs) from an approved Credit Rating Agency. This must be completed within a specific timeframe, which is a period of six months from the date the ARC acquired the assets.

Oct/Nov 2013

79. What is the primary purpose of an originator selling assets to a Special Purpose Vehicle (SPV) in a securitization transaction?
(A) To transfer assets and risks off-balance sheet in exchange for immediate payment.
(B) To significantly increase the total size of its assets and liabilities on the balance sheet.
(C) To continue managing the assets more efficiently on behalf of the newly created SPV.
(D) To earn a higher net interest income from the assets after they have been securitized.

Ans :

(A) To transfer assets and risks off-balance sheet in exchange for immediate payment.
The core motivation for an originator in a securitization deal is to achieve a 'true sale' of the assets. This means transferring the assets, along with their associated credit risks, to the SPV. In return, the originator receives an immediate cash payment, which improves its liquidity and capital position by removing the assets from its balance sheet.

May/June 2015

80. A bank securitizes a pool of loans with an original maturity of more than 2 years and up to 5 years, with a weekly repayment schedule. What is the MHP in number of instalments?
(A) 9
(B) 18
(C) 12
(D) 24

Ans :

(B) 18
As per the Minimum Holding Period table, for loans with an original maturity of 'more than 2 years and up to 5 years', the requirement for weekly repayments is 18 instalments. This ensures that the bank has held the loan and observed its repayment performance for a sufficient duration before it can be packaged and sold to investors.

Oct/Nov 2012

81. Match the term (List-I) with its correct description (List-II).

	List I		List II
P.	Originator	1.	Entity that buys bad loans at a discount for resolution
Q.	SPV	2.	Bank/FI that sells assets from its balance sheet
R.	Bad Bank	3.	Bankruptcy-remote entity that issues securities.
S.	Obligor	4.	Person liable to pay the underlying debt.

(A) P-4, Q-1, R-2, S-3
(B) P-2, Q-3, R-1, S-4
(C) P-2, Q-1, R-3, S-4
(D) P-3, Q-2, R-4, S-1

Ans :

(B) P-2, Q-3, R-1, S-4
The correct matches are: P. Originator is the bank that sells the assets (2). Q. SPV is the bankruptcy-remote entity created for the transaction (3). R. Bad Bank is the ARC that buys NPAs for

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resolution (1). S. Obligor is the original borrower who is liable to pay the debt (4).

May/June 2011

82. Which of the following statements is/are correct regarding the RBI's view on securitization?

I. Complicated and opaque securitization structures are considered desirable for financial stability.

II. Prudentially structured securitization transactions can be an important facilitator in a well-functioning financial market.

(A) Only II
(B) Only I
(C) Both I and II
(D) Neither I nor II

Ans :

(A) Only II

The RBI's directive explicitly states that while complicated and opaque structures could be undesirable from a financial stability perspective, prudentially structured transactions are seen as beneficial. They improve risk distribution and liquidity for lenders, making them an important facilitator in the financial market. Therefore, statement II is correct and statement I is incorrect.

Oct/Nov 2020

83. The government guarantee on NARCL's security receipts is intended to enhance what aspect of the SRs?

(A) Their interest rate
(B) Their maturity period
(C) Their liquidity and tradability
(D) Their exposure to market risk

Ans :

(C) Their liquidity and tradability

The text mentions that the "GOI's guarantee will also enhance liquidity of SRs as such SRs are tradeable." By providing a government backstop, the credit risk of the SRs is significantly reduced, making them more appealing and safer for banks to hold and trade. This enhanced safety and appeal directly boosts their liquidity in the market.

May/June 2022

84. In the context of the rationale for a bad bank, what does "Re-assuring Trust" refer to?

(A) Assuring retail depositors that their money is completely safe from any bank failure.
(B) Building a new level of trust between the bank's management and its defaulting borrowers.
(C) Trusting that the government will provide a full financial bailout for any bank with high NPAs.
(D) By letting investors assess a bank's health more clearly once bad assets are segregated.

Ans :

(D) By letting investors assess a bank's health more clearly once bad assets are segregated.

"Re-assuring Trust" refers to improving investor confidence. When a bank moves its NPAs to a bad bank, its own balance sheet becomes cleaner. This segregation of good assets from bad assets allows investors, analysts, and rating agencies to assess the bank's true financial health with much greater clarity, which can lead to a better valuation and easier access to capital.

Oct/Nov 2023

85. If a bank securitizes a pool of loans but continues to maintain borrower-wise accounts for the proportionate amounts retained (MRR), how is the overdue status of the MRR determined?

(A) Based on the overall performance of the entire securitized pool
(B) It is always classified as standard as long as the SPV is solvent
(C) Based on the repayment received in each individual loan account
(D) The bank can choose any method approved by its board

Ans :

(C) Based on the repayment received in each individual loan account

When borrower-wise accounting is used for the MRR (which is mandatory for non-retail loans), the asset classification of the retained portion is directly tied to the performance of the original underlying loan. The overdue status of the individual loan account, determined by the repayments received from that specific borrower, dictates the overdue status of the corresponding MRR portion.

May/June 2016

86. Which of the following is an example of a securitization exposure that is itself ineligible to be securitized?

(A) A pool of auto loans

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(B) A pool of Mortgage-backed securities
(C) A pool of personal loans
(D) A pool of agricultural loans

Ans :

(B) A pool of Mortgage-backed securities
The guidelines prohibit the securitization of existing securitization exposures. This is to prevent the creation of overly complex, layered securities (often called re-securitizations), which can obscure risk and were a factor in the 2008 financial crisis. Therefore, an existing pool of Mortgage-backed securities (MBS) cannot be packaged into a new securitization deal.

Oct/Nov 2009

87. A housing finance company originates a pool of 100 home loans, each with a 20-year maturity and monthly repayments. It securitizes these loans through an SPV. What is the minimum percentage of the book value of these loans that the company must retain as MRR?
(A) 2.5%
(B) 7.5%
(C) 10%
(D) 5%

Ans :

(D) 5%
The underlying assets are home loans, which means the resulting securities are residential mortgage-backed securities (RMBS). According to the specific RBI directive for this asset class, the Minimum Retention Requirement (MRR) for the originator of RMBS is 5% of the book value of the loans, regardless of their original maturity.

May/June 2023

88. The trusteeship of the trust set up by an ARC for issuing Security Receipts shall vest with whom?
(A) The Asset Reconstruction Company (ARC) itself
(B) The lead investor (QIB)
(C) An independent, third-party trustee
(D) The Reserve Bank of India

Ans :

(A) The Asset Reconstruction Company (ARC) itself
The guidelines specify a particular structure for the issuance of Security Receipts. Every ARC must issue SRs through a trust established exclusively for this purpose. The regulations further mandate that the trusteeship of this trust, which holds the underlying assets, shall vest with the ARC itself, making the ARC both the sponsor and the trustee.

Oct/Nov 2018

89. Which of the following statements is INCORRECT?
(A) Securitization is a process that helps banks convert non-liquid assets into liquid assets.
(B) The SPV in a transaction is specifically designed to be isolated from the originator's bankruptcy risk.
(C) The MRR can be effectively reduced by the originator through the use of hedging for its credit risk
(D) The MRR percentage of unamortised principal must be maintained on an ongoing basis.

Ans :

(C) The MRR can be effectively reduced by the originator through the use of hedging for its credit risk
This statement is explicitly contradicted by the guidelines. The purpose of the MRR is to ensure the originator retains genuine risk. The rules clearly state that the MRR should not be reduced either through hedging of the credit risk or by selling the retained interest. Any such action would defeat the 'skin in the game' principle.

May/June 2007

90. When did NARCL receive its license from the RBI to operate as an asset reconstruction company?
(A) 4th October, 2021
(B) July 2021
(C) 3rd September, 2021
(D) 24th September, 2021

Ans :

(A) 4th October, 2021
The chapter provides specific dates for the establishment of the bad bank structure. While NARCL was incorporated in July 2021, it officially received its license to commence business as an asset reconstruction company from the Reserve Bank of India on the 4th of October, 2021. This license was granted under Section 3 of the SARFAESI Act, 2002.

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(A) September 24, 2021
(B) June 8, 2020
(C) April 1, 2018
(D) July 1, 2021

Ans :

(B) June 8, 2020
The chapter mentions that the final master directions on the transfer of loan exposures and securitization of standard assets were issued after a process of public consultation. This process was initiated with the release of draft rules for public comment on June 8, 2020, leading to the final directions issued in September 2021.

Oct/Nov 2011

65. A Small Finance Bank wants to securitize a portfolio of micro-loans with an original maturity of 30 months. The repayment frequency is fortnightly. What is the Minimum Holding Period (MHP) in terms of the number of instalments to be paid?
(A) 6
(B) 9
(C) 12
(D) 18

Ans :

(B) 9
The loan maturity of 30 months falls into the category of 'more than 2 years and up to 5 years'. The repayment frequency is fortnightly. According to the MHP table provided in the chapter, for this combination of maturity and repayment frequency, a minimum of 9 fortnightly instalments must have been paid before the loans become eligible for securitization.

May/June 2010

66. The form of the Minimum Retention Requirement (MRR) held by an originator:
(A) Should not change during the life of the securitization
(B) Can be changed from a vertical slice to a horizontal slice during the life of the securitization
(C) Must be converted to cash after the first year
(D) Can be sold to another entity after the MHP is over

Ans :

(A) Should not change during the life of the securitization
The regulations are strict about maintaining the integrity of the MRR. One of the key stipulations is that the form in which the MRR is held by the originator must not be altered throughout the life of the securitization transaction. This ensures consistency in the originator's "skin in the game" and prevents any structural changes that might reduce its risk exposure.

Oct/Nov 2024

67. Which of the following is an eligible asset for transfer through direct assignment?
(A) Credit Card receivables
(B) Assets with bullet repayment of both principal and interest
(C) A portfolio of standard housing loans
(D) Assets previously purchased from another NBFC

Ans :

(C) A portfolio of standard housing loans
The rules for direct assignment mirror the eligibility criteria for securitization through an SPV. Standard assets like housing loans are eligible. However, revolving credit facilities (like credit card receivables), assets with bullet repayment of both principal and interest, and assets that the bank has purchased from other entities are all explicitly listed as exceptions and are not eligible for transfer.

May/June 2017

68. In a partial sale of assets where the retained portion is more than the required MRR, all exposures retained by the selling bank, including the MRR, must rank how in relation to the sold portion of the asset?
(A) Senior
(B) Subordinate
(C) Unsecured
(D) Pari-passu

Ans :

(D) Pari-passu
The term 'pari-passu' means 'on an equal footing'. The regulation mandates that in any securitization, the interest retained by the originator (including the MRR) must not have seniority over the interest sold to investors. Both the sold and retained portions must share in any losses proportionately, ensuring that the originator shares the same level of risk as the investors.

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(C) Both are majority-owned by PSBs with a 51% stake
(D) Both are minority-owned by PSBs with a 49% stake

Ans :

(A) NARCL is majority-owned by PSBs (51%), while IDRCL is minority-owned by PSBs (49%)
The ownership structure is deliberately different for the two entities. NARCL, the acquirer of assets, is controlled by Public Sector Banks with a 51% stake. IDRCL, the resolution manager, is structured to be controlled by the private sector, with PSBs holding only a 49% stake, ensuring private sector expertise drives the resolution process.

May/June 2021

96. What financial instruments can a bank, which has sold stressed assets to an ARC, receive as consideration and classify as 'investments'?
(A) Only cash and demand drafts
(B) Bonds, debentures, security receipts (SRs), or Pass-Through Certificates (PTCs)
(C) Only equity shares of the borrowing company
(D) Only government securities

Ans :

(B) Bonds, debentures, security receipts (SRs), or Pass-Through Certificates (PTCs)
When selling assets to an ARC, a bank has multiple options for non-cash consideration. It can receive debt instruments like bonds or debentures, or it can take a stake in the securitized assets through SRs or PTCs issued by the ARC's trust. All these instruments are to be accounted for as 'investments' on the bank's balance sheet.

Oct/Nov 2010

97. The concept of a 'bad bank' was re-floated by the Indian Banks' Association (IBA) in response to what major economic event?
(A) The global financial crisis and its impact on international credit markets in 2008.
(B) The economic slowdown caused by the Covid-19 pandemic
(C) The domestic liquidity crunch that followed the demonetisation event in 2016.
(D) The implementation of the new Goods and Services Tax (GST) regime in India.

Ans :

(B) The economic slowdown caused by the Covid-19 pandemic
The text explicitly links the revival of the 'bad bank' idea to the economic impact of the Covid-19 pandemic. It states that "In the wake of the slowdown in economic activities due to the lockdown imposed due to ongoing Covid-19 pandemic... banks are set to witness a hike in Non-performing assets (NPAs). In this context, the Indian Banks Association (IBA), have re-floated an old idea of creating a 'bad bank'."

May/June 2005

98. From the perspective of an originator, which of the following is a "limitation" of securitization as shown in the process diagram (Fig 16.1)?
(A) Risky for lenders
(B) Boosts liquidity
(C) Raising funds
(D) Portfolio diversification

Ans :

(A) Risky for lenders
The diagram in Fig 16.1 categorizes various aspects of securitization. Under the heading 'LIMITATIONS', it lists 'Risky for lenders'. While securitization transfers risk, it also introduces new complexities and potential risks, such as basis risk or reputational risk if the securitized assets perform poorly. The other options are listed under 'USEFULNESS' (benefits).

Oct/Nov 2022

99. The assets acquired by an ARC should be transferred to what entity at the price at which they were acquired from the originator?
(A) To another Asset Reconstruction Company
(B) To a special account held with the Reserve Bank of India
(C) To the trusts set up by the ARC for this purpose
(D) Directly onto the balance sheet of the ARC itself

Ans :

(C) To the trusts set up by the ARC for this purpose
The regulatory framework requires a clear separation between the ARC as a company and the assets it manages. The assets acquired from an originator must be transferred to special trusts that are set up by the ARC exclusively for each

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securitization scheme. The Security Receipts are then issued by this trust, not by the ARC directly.

May/June 2018

100. A bank is considering securitizing a pool of loans with an original maturity of 2 years and a monthly repayment schedule. The bank wants to sell the loans as quickly as possible. What is the minimum number of instalments that must have been paid before these loans are eligible for securitization?

(A) 2
(B) 6
(C) 12
(D) 3

Ans :

(D) 3

The loans have an original maturity of 2 years (or 'upto 2 years'). The repayment frequency is monthly. According to the Minimum Holding Period (MHP) table, for loans in this maturity category with a monthly repayment schedule, a minimum of 3 instalments must have been paid. This allows the bank to securitize these short-term loans relatively quickly after observing a brief performance history.

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CHAPTER 17
Marketing: An Introduction

Oct/Nov 2016

1. According to the chapter's objectives, which of the following is a key area of understanding for a student after studying this unit?
   (A) The history of corporate banking and its development
   (B) Marketing and delivery channels in retail banking
   (C) The process of regulatory compliance in global banking
   (D) The detailed calculation of the capital adequacy ratio

Ans :

(B) Marketing and delivery channels in retail banking
The objectives listed at the beginning of the unit explicitly state that after studying the unit, the student should be able to understand marketing and delivery channels in retail banking, the concept of the marketing process, and the marketing mix required for retail banking. The other options are not mentioned in the unit's objectives.

May/June 2021

2. What is the primary driver of profitability and strength in retail banking models, as contrasted with corporate banking?
   (A) The number of customers each bank possesses
   (B) The average size of individual corporate loan accounts
   (C) The inherent complexity of financial instruments offered
   (D) The total volume of foreign exchange trading transactions

Ans :

(A) The number of customers each bank possesses
The text states that retail banking, unlike corporate banking, is primarily driven by the number of customers a bank has. A larger clientele base is directly linked to the profitability and strength of retail banking models, as profits are derived from this broad base. This necessitates a focus on building and retaining customers.

Oct/Nov 2025

3. Marketing in the retail banking space is described as a process through which a marketer performs which key actions?
   (A) Audits internal controls, reports to regulators, and complies with legal statutes
   (B) Minimizes the bank's operational costs and maximizes overall shareholder equity
   (C) Creates, communicates, and delivers value to customers
   (D) Manages institutional treasury operations and complex asset-liability risks

Ans :

(C) Creates, communicates, and delivers value to customers
The introduction defines marketing as a process through which a marketer creates, communicates, and delivers value to customers. It also emphasizes that marketing involves building a strong customer relationship that benefits both the organization and its stakeholders. The other options describe different, unrelated functions within a bank's operations.

May/June 2005

4. Who defined Bank Marketing as 'the creation and delivery of customer satisfying services at a profit to the bank'?
   (A) Kenneth Andrew
   (B) Deryk Vander Weyer
   (C) Philip Kotler
   (D) Sir Frederick Seebohmn

Ans :

(D) Sir Frederick Seebohmn
The text explicitly attributes the definition, 'the creation and delivery of customer satisfying services at a profit to the bank', to Sir Frederick Seebohmn. This definition highlights the dual goals of customer satisfaction and profitability,

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List-I (Stage)
P. Marketing Analysis
Q. Marketing Planning
R. Marketing Implementation
S. Marketing Control
List-II (Activity)
1. Answering "who, where, when, and how"
2. Auditing, measuring, and evaluating goals
3. Conducting SWOT analysis
4. Defining SBUs and drafting the "offering"
(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

Ans :

(A) P-3, Q-4, R-1, S-2
Marketing Analysis involves SWOT analysis (P-3). Marketing Planning focuses on defining SBUs and drafting the offering (Q-4). Marketing Implementation is about the execution details of "who, where, when, and how" (R-1). Marketing Control is the stage for auditing, measuring, and evaluating performance against goals (S-2).

May/June 2008

35. Which of the following statements is INCORRECT regarding the marketing mix in retail banking?
(A) The seven Ps are Product, Price, Promotion, Place, People, Process, and Physical Evidence.
(B) The 'Place' element has shifted from a physical format to an e-format due to technology.
(C) The effectiveness of one P is completely independent of the other Ps.
(D) 'Physical Evidence' aims to add tangibility to intangible banking services.

Ans :

(C) The effectiveness of one P is completely independent of the other Ps.
This statement is incorrect. The chapter explicitly states that the Ps are interlinked and interdependent. The effectiveness of a product depends on its price, promotion, and place. A failure in one element can undermine the success of the others, making a holistic and integrated approach essential for marketing success.

Oct/Nov 2013

36. Consider the following statements about the marketing process:
Statement 1: The Marketing Planning stage involves conducting a SWOT analysis.
Statement 2: The Marketing Analysis stage involves drafting the "offering".
Which of the statements is/are correct?
(A) Only Statement 1
(B) Only Statement 2
(C) Both Statement 1 and Statement 2
(D) Neither Statement 1 nor Statement 2

Ans :

(D) Neither Statement 1 nor Statement 2
Both statements are incorrect as they have swapped the activities of the stages. The Marketing Analysis stage involves conducting a SWOT analysis to understand the market environment. The Marketing Planning stage is where the "offering" or the marketing plan is drafted, along with setting goals and defining SBUs.

May/June 2015

37. Which of the 7 Ps of the marketing mix is most directly concerned with the interest charged on a car loan?
(A) Product
(B) Promotion
(C) Price
(D) Process

Ans :

(C) Price
The 'Price' element in the marketing mix for an asset product, such as a car loan, refers to the interest the bank quotes to the borrower. This is the cost the customer pays for availing the loan product. Therefore, the interest charged on a car loan falls directly under the 'Price' component.

Oct/Nov 2012

38. A bank launching a new television commercial to advertise its home loan products is an example of which element of the marketing mix?
(A) Place
(B) Promotion
(C) People
(D) Physical Evidence

Ans :

(B) Promotion
'Promotion' refers to the efforts banks make to reach customers and communicate their offerings. A television commercial is a form of

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Oct/Nov 2009

9. In the process of marketing, which stage involves analyzing the markets and marketing environments where a product will be introduced?
(A) Marketing Planning
(B) Marketing Implementation
(C) Marketing Analysis
(D) Marketing Control

Ans :

(C) Marketing Analysis
The first stage described in the marketing process is Marketing Analysis. This stage is dedicated to an organization focusing on analyzing the markets and the specific marketing environments it plans to enter. It involves gaining insights into the market and competitors to inform the subsequent stages of planning and implementation.

May/June 2012

10. Which analytical tool is mentioned as being particularly "handy" for gaining insights into the market and competitors during the Marketing Analysis stage?
(A) SWOT Analysis
(B) PESTLE Analysis
(C) Cost-Benefit Analysis
(D) Break-Even Analysis

Ans :

(A) SWOT Analysis
The text explicitly states that for gaining insights into the market and competitors during the Marketing Analysis stage, the Strength-Weakness-Opportunity-Threats (SWOT) analysis comes handy. This tool helps an organization to understand its internal capabilities and external market factors, which is crucial for strategic planning in marketing.

Oct/Nov 2014

11. Which stage of the marketing process primarily focuses on defining Strategic Business Units (SBUs), goals, and objectives, and drafting the marketing plan for a product or brand?
(A) Marketing Analysis
(B) Marketing Implementation
(C) Marketing Control
(D) Marketing Planning

Ans :

(D) Marketing Planning
The Marketing Planning stage is where the organization defines its Strategic Business Units (SBUs), sets goals and objectives, and chalks out potential issues. A key activity in this stage is drafting the marketing plan for each business, product, or brand, which is referred to as an "offering" in the text.

May/June 2019

12. In the Marketing Planning stage, the drafted marketing plan is referred to as:
(A) A proposal
(B) An offering
(C) A blueprint
(D) A charter

Ans :

(B) An offering
The text specifies that during the Marketing Planning stage, the marketing plan drafted for each business, product, or brand is called an "offering". This draft is then followed by setting up an executive summary, action programs, budgeting, and controls to guide the marketing efforts for that specific offering.

Oct/Nov 2006

13. During which marketing process stage does an organization answer questions like "who, where, when and how" for the offering?
(A) Marketing Analysis
(B) Marketing Planning
(C) Marketing Implementation
(D) Marketing Control

Ans :

(C) Marketing Implementation
The Marketing Implementation stage is concerned with the practical execution of the marketing plan. It is at this stage that an organization addresses the operational questions of "who, where, when and how" for the offering. Success in this stage depends on blending various organizational elements like people, culture, and structure effectively.

May/June 2016

14. The success of the Marketing Implementation stage depends on the effective blending of several factors. Which of the following is NOT listed as one of these factors?
(A) People and organizational culture
(B) Structure and decision systems

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which are central to the concept of bank marketing as presented in the chapter.

Oct/Nov 2010

5. Which definition of Bank Marketing emphasizes 'the matching of bank's resources with the customer's needs in the most profitable manner'?
(A) Sir Frederick Seebohmn's definition of service and profit
(B) Deryk Vander Weyer's definition of proactive strategy
(C) Kenneth Andrew's definition
(D) The IIBF's standard definition for modern banking

Ans :

(C) Kenneth Andrew's definition
Kenneth Andrew is credited with defining Bank Marketing as 'the matching of bank's resources with the customer's needs in the most profitable manner'. This perspective focuses on the strategic alignment of the bank's internal capabilities and resources with external customer requirements to achieve optimal profitability and efficiency in service delivery.

May/June 2014

6. Deryk Vander Weyer's definition of Bank Marketing positions it as a proactive business strategy. Which of the following is NOT one of the four key activities he outlines?
(A) Identifying the most profitable markets now and in the future
(B) Minimizing marketing expenditure across all product lines
(C) Assessing the present and future needs of customers
(D) Setting business development goals and making plans to meet them

Ans :

(B) Minimizing marketing expenditure across all product lines
Deryk Vander Weyer's definition includes identifying profitable markets, assessing customer needs, setting business goals, and adapting to a changing environment. It does not mention minimizing marketing expenditure as a core component; rather, it implies strategic allocation of resources to achieve development goals, which may not always mean minimization.

Oct/Nov 2022

7. A well-laid marketing strategy for retail banking focuses on the customer. Which of the following activities is a core focus area derived from this customer-centric approach?
(A) Reducing the number of delivery channels to centralize operations and cut costs
(B) Standardizing all banking products to achieve internal economies of scale
(C) Maximizing service fees on all available banking services to boost revenue
(D) Developing appropriate products to satisfy customers' needs

Ans :

(D) Developing appropriate products to satisfy customers' needs
The text lists four activities that marketing in retail banking should focus on. These include identifying customer needs, developing appropriate products to satisfy those needs, providing efficient delivery channels, and ensuring customers avail the products continuously. Developing suitable products is a direct response to identified customer needs and is a fundamental part of the strategy.

May/June 2023

8. What are the ultimate objectives of the customer-focused initiatives in retail banking marketing?
(A) To achieve the business objectives of growth and profit
(B) To achieve full regulatory compliance and enhance social responsibility efforts
(C) To become the geographically largest bank in terms of total branch network
(D) To minimize internal employee turnover and reduce ongoing training costs

Ans :

(A) To achieve the business objectives of growth and profit
The chapter states that the ultimate objectives of the customer-centric marketing initiatives are to achieve the business objectives of growth and profit. While other goals might be important for a bank, the marketing activities described are specifically aimed at driving business growth and ensuring the bank's long-term profitability through customer satisfaction.

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The chapter explicitly lists seven fundamental ingredients, known as the 'seven Ps', that form the marketing mix in retail banking. These are Product, Price, Promotion, Place, People, Process, and Physical evidence. These elements are considered vital for designing and developing effective retail banking marketing strategies for customer acquisition and retention.

May/June 2025

20. Which of the following is NOT one of the seven Ps of the marketing mix in retail banking?
(A) People
(B) Process
(C) Physical evidence
(D) Profitability

Ans :

(D) Profitability
The seven Ps of the marketing mix detailed in the chapter are Product, Price, Promotion, Place, People, Process, and Physical evidence. While profitability is an ultimate objective of marketing, it is not considered one of the core tactical elements or 'Ps' of the marketing mix itself.

Oct/Nov 2019

21. How is a 'bank product' defined within the context of the marketing mix?
(A) Any financial service designed to generate a non-interest fee for the bank
(B) Any formal financial instrument officially regulated by the central bank
(C) Anything that has the capacity to provide the satisfaction, use, and return desired by the customer
(D) The tangible physical branch and its associated infrastructure for bank operations

Ans :

(C) Anything that has the capacity to provide the satisfaction, use, and return desired by the customer
The text provides a specific definition for a bank product: "Anything that has the capacity to provide the satisfaction, use, and return desired by the customer." This broad definition encompasses not just tangible items but also services and benefits that fulfill a customer's needs, such as deposit, asset, and other service products.

May/June 2009

22. In the context of the marketing mix 'Price', what does it refer to for deposit products?
(A) The monthly account maintenance fee charged to the customer
(B) The interest rate offered by the banker to the customer
(C) The financial penalty for premature withdrawal of funds
(D) The combined cost of the cheque book and debit card

Ans :

(B) The interest rate offered by the banker to the customer
For deposit products, the 'Price' element of the marketing mix refers to the interest rate that the bank offers to the customer. This represents the return the customer receives for placing their funds with the bank, making it the 'price' the bank pays for the use of those funds.

Oct/Nov 2011

23. For asset products like loans, what does the 'Price' element of the marketing mix represent?
(A) The standardized processing fee charged upfront for the application
(B) The various legal and documentation charges incurred by the borrower
(C) The mandatory insurance premium required for the total loan amount
(D) The interest the bank is quoting to the borrower customer

Ans :

(D) The interest the bank is quoting to the borrower customer
In the case of asset products, such as loans, 'Price' is defined as the interest the bank quotes to the borrower. This is the cost the customer must pay for the service of borrowing money from the bank, representing the bank's primary revenue source from its lending activities.

May/June 2010

24. The 'Promotion' element of the marketing mix refers to the efforts of banks to reach customers. Which of the following is listed as a method for developing promotion strategies?
(A) Personal Selling and Advertisement
(B) New Product Development
(C) Strategic Branch Location Selection
(D) Internal Process Re-engineering

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should incorporate both methodologies, not just be reactive.

Oct/Nov 2009

44. The concept that the success of the marketing mix represents a "holistic approach" to marketing effectiveness implies that:

(A) Only one 'P' needs to be perfect for the marketing strategy to succeed.
(B) The seven Ps contribute in an integrated way, not just individually.
(C) The marketing department must operate in complete isolation from other bank departments.
(D) Customer feedback should only be collected after a new product has failed in the market.

Ans :

(B) The seven Ps contribute in an integrated way, not just individually.
The text explains that the seven Ps contribute not only individually but also in an integrated way. A holistic approach means that all elements must work together harmoniously. A great product will not succeed with poor promotion or an inconvenient place, demonstrating the integrated and interdependent nature of the marketing mix.

May/June 2023

45. "A bank product can be defined as 'Anything that has the capacity to provide the satisfaction, use, and return desired by the customer'. The different retail banking products like Deposit, Asset and Other Service products were already discussed in the earlier chapters."
Based on the provided source, what is the core characteristic that defines a bank product?

(A) Its fundamental nature as a tangible item that a customer can possess
(B) The mandatory requirement for approval from a governing financial body
(C) Its capacity to provide customer satisfaction, use, and return
(D) Its strict classification within the categories of Deposit or Asset products

Ans :

(C) Its capacity to provide customer satisfaction, use, and return
The source explicitly defines a bank product by its capacity to provide "satisfaction, use, and return desired by the customer." This customer-centric definition focuses on the benefits and value delivered, rather than its physical form, regulatory status, or a restrictive classification. The mention of Deposit/Asset products serves as an example, not a limitation.

Oct/Nov 2018

46. "'Place' in retail banking generally refers to the place where the bank is offering its product. The concept of place has undergone drastic changes during the past decade... technology has changed the concept and place has shifted from the brick and mortar format to e-format and has reached the customer in his place through internet banking and mobile banking."
According to the source, what has been the primary driver of the change in the 'Place' concept in retail banking?

(A) Customer demand for larger and more comfortable branches
(B) Increased regulatory oversight on branch locations
(C) Competitive pressure from newly established foreign banks
(D) Technological advancements

Ans :

(D) Technological advancements
The source directly attributes the change in the 'Place' concept to technology. It specifies that "technology has changed the concept and place has shifted from the brick and mortar format to e-format." This shift is exemplified by the rise of internet and mobile banking, which are technological innovations.

May/June 2007

47. "The inseparability principle of bank products adds more importance to the people concept because the effectiveness of the product depends on the effectiveness of the people delivering the product."
Based on the source, why is the 'People' concept so critical in banking?

(A) Because the service delivery and the service provider are intrinsically linked
(B) Because banking products are inherently highly complex and technical
(C) Because bank employees require extensive and continuous technical training
(D) Because most customers now prefer interacting with technology over people

NODIA

(C) The intangibility of banking services
(D) The heavy regulation of banking services

Ans :

(C) The intangibility of banking services
The purpose of 'Physical Evidence' is to develop tangibility for the inherently intangible nature of banking services. By providing tangible cues like a Debit Card, ATM Card, or a Personalised Cheque Book, banks attempt to make their service offerings more concrete and perceptible to customers, enhancing their experience.

May/June 2013

30. Which of the following is given as a "classic case" of a bank's attempt to bring tangibility to its service spectrum?
(A) Offering a highly competitive interest rate on deposits
(B) Ensuring a friendly and knowledgeable bank teller is available
(C) Providing a 24/7 customer service hotline for support
(D) A personalized cheque book

Ans :

(D) A personalized cheque book
The text explicitly cites Debit Card/ATM Card and a Personalised Cheque Book as classic cases of attempts by banks to bring tangibility to their services. These items serve as physical representations of the banking relationship and the services being provided, which is the core idea of the 'Physical Evidence' element.

May/June 2024

31. What is the relationship between the seven Ps of the marketing mix?
(A) They are both independent and interdependent.
(B) They are completely independent and do not affect each other's effectiveness.
(C) They are strictly hierarchical, with 'Product' being the only truly important one.
(D) They are mutually exclusive, so a bank must choose only one to focus on.

Ans :

(A) They are both independent and interdependent.
The chapter explains that the seven Ps are both independent, contributing individually to marketing effectiveness, and interdependent, as the effectiveness of one P is linked to the others. For example, a great product may fail if the price is wrong or promotion is weak, illustrating their interlinked nature.

Oct/Nov 2008

32. The effectiveness of marketing strategies and the seven Ps is ultimately measured by what?
(A) The total amount of money spent on advertising and promotion
(B) The responses from the customers from the point of view of need satisfaction
(C) The number of new products launched by the bank per year
(D) The bank's official ranking in annual industry surveys and reports

Ans :

(B) The responses from the customers from the point of view of need satisfaction
The text emphasizes that the success of the seven Ps and the overall marketing strategy is measured by customer responses. If customers are responsive, use the services, and are satisfied, it leads to repeat business. This customer-centric measure of success is based on need satisfaction and is the ultimate test of effectiveness.

May/June 2006

33. What happens if a customer is not satisfied with a bank's products or services?
(A) The bank is legally obligated to offer a full refund for any fees paid.
(B) The customer will think about the competitors.
(C) The bank must immediately change its marketing manager and strategy.
(D) The product is automatically withdrawn from the market by regulators.

Ans :

(B) The customer will think about the competitors.
The text suggests that if a customer's needs are not satisfied, there is no reason for them to return. This dissatisfaction will lead the customer to consider the offerings of competing banks. This highlights the competitive nature of retail banking and the critical importance of achieving customer satisfaction to ensure loyalty.

Oct/Nov 2017

34. Match the marketing process stage (List-I) with its primary activity (List-II).

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(C) Reward systems and cohesive action programmes
(D) Competitor pricing strategies

Ans :

(D) Competitor pricing strategies
The text states that Marketing Implementation depends on blending people, culture, structure, decision and reward systems. It also mentions that skills and cohesive action programmes play a vital role. Competitor pricing strategies would have been considered earlier, in the Marketing Analysis and Planning stages, not during the implementation phase itself.

Oct/Nov 2018

15. The Marketing Control stage involves regulating goals through several activities. Which of the following is one of these activities?
(A) Auditing, measuring, and evaluating
(B) Drafting the initial product offering
(C) Conducting a detailed SWOT analysis
(D) Defining the Strategic Business Units

Ans :

(A) Auditing, measuring, and evaluating
The Marketing Control stage is described as the job of regulating goals by auditing, measuring, evaluating, and acting upon defined control parameters. This stage ensures that the marketing activities are on track to meet the set objectives and allows for corrective actions to be taken when necessary based on performance evaluation.

May/June 2007

16. What are the two methodologies mentioned for performing marketing control?
(A) Internal and external methodology
(B) Reactive and pro-active methodology
(C) Manual and automated methodology
(D) Qualitative and quantitative methodology

Ans :

(B) Reactive and pro-active methodology
The text states that the process of marketing control can be done in two ways: reactive methodology and pro-active methodology. This implies that control can be exercised either by responding to deviations after they occur or by anticipating potential issues and taking preemptive measures to stay aligned with marketing goals.

Oct/Nov 2015

17. To be effective, marketing control needs to possess several characteristics. Which of the following is NOT one of the required characteristics?
(A) Comprehensive and systematic
(B) Biased and subjective
(C) Independent and periodic
(D) Unbiased and comprehensive

Ans :

(B) Biased and subjective
The chapter explicitly lists the necessary characteristics for marketing control: it needs to be unbiased, comprehensive, systematic, independent, and periodic. A control system that is biased or subjective would be ineffective as it would not provide an accurate or fair assessment of performance against the set marketing goals.

May/June 2018

18. What analogy is used to describe the marketing mix in retail banking?
(A) The different ingredients that make up a good meal
(B) The different parts of a complex machine working together
(C) The different players on a sports team with unique roles
(D) The different sections of an orchestra creating harmony

Ans :

(A) The different ingredients that make up a good meal
The text introduces the marketing mix in retail banking by comparing it to "the different ingredients that make up a good meal for the customer." This analogy suggests that various elements must be combined correctly to create an offering that customers will find satisfying and will want to consume continuously.

Oct/Nov 2007

19. How many fundamental ingredients, or 'Ps', are listed as constituting the effective marketing mix in retail banking?
(A) Four
(B) Five
(C) Seven
(D) Six

Ans :

(C) Seven

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advertisement, which is explicitly listed as a key promotional tool. The objective is to inform potential customers about the home loan product and persuade them to avail it.

May/June 2011

39. The transition from customers visiting a branch for transactions to using a mobile banking app exemplifies the evolution of which 'P' in the marketing mix?
(A) Product
(B) Price
(C) People
(D) Place

Ans :

(D) Place
'Place' refers to where the bank offers its products. The shift from requiring a physical presence at a branch to allowing transactions via a mobile app represents a fundamental change in the 'Place' element. It has moved from a "brick and mortar format" to an "e-format" with no physical boundaries.

Oct/Nov 2020

40. Assertion (A): The 'People' element is crucial in bank marketing due to the service-oriented nature of the industry.
Reason (R): The inseparability principle means the quality of the banking service cannot be separated from the employee providing it.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is true as banking is a service where human interaction is key. Reason (R) is also true, as the inseparability principle is a core concept in services marketing. The reason correctly explains the assertion because the employee's performance directly impacts the customer's perception of the service, making 'People' a critical element.

May/June 2022

41. Which of the following pairs is INCORRECTLY matched?
(A) Product : A new type of savings account
(B) Price : Interest rate on a fixed deposit
(C) Promotion : A bank's annual financial report
(D) Physical Evidence : A branded debit card

Ans :

(C) Promotion : A bank's annual financial report
While an annual report communicates information, it is primarily a regulatory and investor relations document, not a promotional tool aimed at winning new customers for specific products. Promotion includes activities like advertising, sales promotions, and publicity, which are directly focused on customer acquisition and product sales, unlike an annual report.

Oct/Nov 2023

42. A bank redesigns its entire loan application and approval journey to make it faster and more transparent for the customer. This initiative is primarily an improvement of which 'P'?
(A) Process
(B) Product
(C) Price
(D) Promotion

Ans :

(A) Process
'Process' is the all-permeating concept that includes all activities from development to delivery. Redesigning the loan application and approval journey is a direct modification of the internal procedures and workflows. The goal is to improve the delivery of the service, which is the core of the 'Process' element.

May/June 2016

43. Which of the following is NOT a characteristic required for effective marketing control?
(A) Periodic
(B) Systematic
(C) Unbiased
(D) Reactive only

Ans :

(D) Reactive only
The text states that marketing control can be done using both reactive and pro-active methodologies. Limiting control to only a reactive approach would be insufficient, as a pro-active approach allows the organization to anticipate and prevent issues. Therefore, an effective control system

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Ans :

(A) Personal Selling and Advertisement
The text describes 'Promotion' as the bank's efforts to reach customers. It explicitly mentions that marketers develop promotion strategies through various ways, including Personal Selling, Advertisement, Sales Promotions, and Publicity. The ultimate objective of these promotional measures is to win customers and encourage them to use the bank's products and services.

Oct/Nov 2024

25. The concept of 'Place' in retail banking has undergone a drastic change. What is the nature of this shift?
(A) From densely populated urban centers to more remote rural areas
(B) From large, full-service branches to smaller, specialized kiosks
(C) From a brick and mortar format to an e-format
(D) From a focus on domestic markets to expansion into international markets

Ans :

(C) From a brick and mortar format to an e-format
The chapter highlights that technology has fundamentally changed the concept of 'Place'. It has shifted from the physical location of a branch (brick and mortar format) to an electronic format (e-format), allowing banks to reach customers through channels like internet banking and mobile banking, effectively removing physical boundaries.

May/June 2017

26. In the context of the marketing mix, the 'People' concept is vital. To whom does 'People' refer?
(A) Both the bank's employees and the customers they serve
(B) Exclusively the external customer base that utilizes the bank's products
(C) Exclusively the senior leadership team and board of directors
(D) The external regulatory bodies overseeing the bank's compliance

Ans :

(A) Both the bank's employees and the customers they serve
The 'People' concept in marketing is described as referring to both the people who are executing the marketing strategies (i.e., bank employees) and the people who are the beneficiaries of these strategies (i.e., the customers). This highlights the human interaction and service element crucial in banking.

Oct/Nov 2005

27. What principle adds more importance to the 'People' concept in bank marketing, as the effectiveness of the product depends on the people delivering it?
(A) The principle of tangibility
(B) The principle of variability
(C) The perishability principle
(D) The inseparability principle

Ans :

(D) The inseparability principle
The text states that the inseparability principle of bank products adds more importance to the 'People' concept. This principle suggests that the production and consumption of a service often happen simultaneously, meaning the effectiveness of the service (product) is inseparable from the person delivering it, highlighting the role of bank staff.

May/June 2020

28. Which of the 7 Ps is described as an "all permeating concept running through the product development, product structuring and delivery stage"?
(A) Place
(B) Process
(C) Promotion
(D) Price

Ans :

(B) Process
'Process' is defined as an all-permeating concept that covers all stages from product development to delivery. A successful process is one where the output is delivered as promised, fulfilling customer expectations. It encompasses all organizational activities involved in marketing the final product, including the delivery channels used.

Oct/Nov 2021

29. 'Physical Evidence' in the marketing mix aims to address which characteristic of banking services?
(A) The inherent complexity of banking services
(B) The relatively high cost of banking services

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Ans :

(A) Because the service delivery and the service provider are intrinsically linked
The source explains that the 'People' concept is vital due to the inseparability principle. This principle means that the service (the product) and the person delivering it are intertwined; the customer's experience of the product's effectiveness is directly influenced by the performance of the bank employee, making them inseparable.

Oct/Nov 2025

48. In a story, a king offers a reward to four people. The first person asks for employment and is immediately employed by the king. In marketing terms, what does this request and its fulfillment represent?
(A) A cross-sale of a closely linked product offering
(B) A single product offering
(C) An augmented product sale with added benefits
(D) A mass product sale to a wide audience

Ans :

(B) A single product offering
The first person's request was for one specific thing: employment. The king fulfilled this single, direct need immediately. This straightforward transaction, where one specific product or service is provided to meet a direct request, is analogous to a bank providing a single product, like a basic savings account, to a customer.

May/June 2012

49. The second person in the king's story wanted to marry a beautiful girl. He was first employed as a captain in the army and then married to a minister's daughter. What marketing concept does this scenario illustrate?
(A) A single, standalone product offering
(B) A cross-sale of a linked product
(C) A mass product sale to a community
(D) An augmented product sale with continuous value

Ans :

(B) A cross-sale of a linked product
The second person's initial need (marriage) was met by first providing a related product (employment as a captain). This illustrates the concept of a cross-sale of linked products. The bank equivalent would be offering a credit card (linked product) to a customer who has just taken out a home loan (primary product).

Oct/Nov 2014

50. The third person in the story requested a road to his village for the benefit of all villagers. This act, which benefits a large group of people, is used as an analogy for what type of product sale?
(A) A mass product sale
(B) A highly customized niche product sale
(C) A single product sale to an individual
(D) An augmented product sale with added services

Ans :

(A) A mass product sale
The request for a road benefits the entire community, not just one individual. This is analogous to a mass product sale, where a single product or service is designed and offered to a large, undifferentiated market segment. Examples in banking could include a standard savings account or a widely available ATM network.

May/June 2019

51. The fourth person requested that the king visit his village annually. This led to a road being built, his house being renovated, and other special arrangements. This ongoing, value-adding relationship represents which marketing concept?
(A) A single product sale
(B) A mass product sale
(C) An augmented product sale
(D) An initial product offering

Ans :

(C) An augmented product sale
The fourth person's request went beyond a single product and initiated a long-term relationship with continuously added value (road, renovation, security). This represents an augmented product sale, where the core product is enhanced with additional services and benefits to create a deeper, more valuable customer relationship and increase wallet share.

Oct/Nov 2006

52. The story of the king and the four young persons is used to illustrate four ways of marketing to

NODIA

May/June 2025

61. All of the following are listed as keywords for the chapter EXCEPT:
(A) Marketing Mix
(B) Product
(C) Customer Relationship Management
(D) Physical Evidence

Ans :

(C) Customer Relationship Management
The keywords listed at the end of the chapter are: Marketing Mix; Product; Price; Place; Promotion; People; Process; Physical Evidence. While building a strong customer relationship is a theme in the chapter, "Customer Relationship Management" is not explicitly listed as a keyword in the provided text.

Oct/Nov 2019

62. Which of the following transactions is listed as a capability of Internet Banking in the "Let Us Sum Up" section?
(A) Withdrawing physical cash from a virtual teller
(B) Depositing physical cheques via a scanner
(C) Opening a new bank branch in a new city
(D) Fund transfers and bill payment services

Ans :

(D) Fund transfers and bill payment services
The summary section explicitly lists the transactions customers can perform through Internet Banking, which include "debits, credits, fund transfers and bill payment services, etc." These services allow customers to manage their finances electronically without visiting a branch, which is a key feature of this remote channel.

May/June 2009

63. What is the final recommendation for banks to meet customer expectations and enhance satisfaction levels, according to the summary?
(A) Adopting a channel mix based on detailed customer profiling
(B) Focusing the bank's strategy exclusively on expanding its physical branch network
(C) Implementing a policy to replace all human tellers with fully automated machines
(D) Pursuing a competitive strategy of offering the lowest prices on all products

Ans :

(A) Adopting a channel mix based on detailed customer profiling
The summary concludes by advising that to meet customer expectations, "banks should develop and adopt the right channel mix through proper customer profiling." This means understanding different customer segments' preferences and creating a blended offering of physical and remote channels that best serves their specific needs and behaviors.

Oct/Nov 2011

64. Which of the following statements about the marketing mix is correct?
(A) The 7 Ps are Product, Price, Promotion, Place, People, Process, and Profit.
(B) 'Price' for a deposit product is the interest rate offered to the customer.
(C) A personalized cheque book is presented as an example of the 'Product' element.
(D) The 'Place' element is exclusively limited to the physical branch location.

Ans :

(B) 'Price' for a deposit product is the interest rate offered to the customer.
This statement is correct. The text defines 'Price' for deposit products as the interest rate offered by the banker to the customer. Option A is wrong (it's Physical Evidence, not Profit). Option B is wrong (a cheque book is given as an example of Physical Evidence). Option D is wrong (Place now includes e-formats like internet/mobile banking).

May/June 2010

65. Identify the INCORRECT statement regarding the stages of the marketing process.
(A) Marketing Analysis uses SWOT analysis to gain insights into the market.
(B) Marketing Control is a one-time activity performed at the start of a campaign.
(C) Marketing Planning includes defining SBUs and drafting an "offering".
(D) Marketing Implementation is the stage that answers "who, where, when, and how".

Ans :

(B) Marketing Control is a one-time activity performed at the start of a campaign.
This statement is incorrect. The text specifies that marketing control needs to be periodic. It is an ongoing process of auditing, measuring, and

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(A) 1, 2, and 3 only
(B) 1 and 4 only
(C) 2 and 3 only
(D) 1, 2, 3, and 4

Ans :

(A) 1, 2, and 3 only
The text states that the draft "offering" is followed by setting up an executive summary, action programmes, budgeting, and controls. SWOT analysis is conducted earlier, during the Marketing Analysis stage, to provide input for the planning process, not as part of the plan's final structure after the draft.

May/June 2018

57. The "Let Us Sum Up" section identifies two basic types of delivery channels in retail banking. What are they?
(A) Primary Channels and Secondary Channels
(B) Human Channels and Automated Channels
(C) Physical Channels and Remote Channels
(D) In-branch Channels and Off-branch Channels

Ans :

(C) Physical Channels and Remote Channels
The summary section clearly categorizes delivery channels into two basic types: Physical Channels, which include branches and extension counters, and Remote Channels, also known as Electronic Channels. This distinction is based on whether the service delivery requires a physical presence at a bank's location or can be accessed from a distance.

Oct/Nov 2016

58. According to the summary, which of the following are examples of Physical Channels?
(A) Branches and Extension Counters
(B) ATMs and Internet Banking
(C) Mobile Banking and ATMs
(D) Internet Banking and Mobile Banking

Ans :

(A) Branches and Extension Counters
The "Let Us Sum Up" section explicitly refers to Branches and Extension Counters as Physical Channels. These are traditional, brick-and-mortar locations where customers interact with bank staff in person. Remote channels, in contrast, are designed to serve customers outside of these physical locations through electronic means.

May/June 2014

59. What is the primary advantage of Remote Channels like ATMs and Internet Banking, as mentioned in the summary?
(A) They provide a uniquely personal touch to the service process.
(B) They are consistently less expensive for the bank to set up initially.
(C) They are primarily used for complex transactions like loan origination.
(D) They give customers the freedom to avail services at their convenience.

Ans :

(D) They give customers the freedom to avail services at their convenience.
The summary contrasts the two channel types by stating that while branches provide a personal touch, "remote channels give the freedom to avail the services at their convenience." This highlights the key benefit of electronic channels: they are not bound by branch timings or locations, offering 24/7 accessibility.

Oct/Nov 2007

60. What is the primary advantage of Physical Channels like branches, as implied in the summary?
(A) They offer inherently faster transaction speeds than all remote channels.
(B) They provide a personal touch to the service process.
(C) They allow universal access to accounts from any bank's ATM network.
(D) They are best suited for simple, routine transactions like balance enquiries.

Ans :

(B) They provide a personal touch to the service process.
The summary section draws a clear distinction, stating, "While branches give the personal touch to the service process, remote channels give the freedom to avail the services at their convenience." This implies that the key strength and advantage of physical branches is the human interaction and personalized service they can offer.

NODIA

Ans :

(A) How the customers' expectations are met by the banks.
The summary concludes its discussion on channels by stating that "the satisfaction levels depend on how the customers' expectations are met by the banks." This emphasizes that simply having channels is not enough; their performance must align with what customers expect in terms of convenience, reliability, and functionality to deliver true satisfaction.

May/June 2007

89. Which of the following correctly pairs a channel type with an example from the text?
(A) Remote Channel : Extension Counter
(B) Physical Channel : Mobile Banking
(C) Remote Channel : ATM
(D) Physical Channel : Internet Banking

Ans :

(C) Remote Channel : ATM
The text categorizes channels into Physical (Branches, Extension Counters) and Remote/ Electronic (ATMs, Internet Banking, Mobile Banking). Therefore, pairing 'Remote Channel' with 'ATM' is correct. The other options incorrectly mix up the categories and examples provided in the summary section of the chapter.

Oct/Nov 2025

90. The marketing activity of 'setting business development goals and making plans to meet them' belongs to which definition of Bank Marketing?
(A) Deryk Vander Weyer's definition
(B) Sir Frederick Seebohmn's definition of service and profit
(C) Kenneth Andrew's definition of matching resources to needs
(D) This is not part of any specific definition provided in the text

Ans :

(A) Deryk Vander Weyer's definition
This activity is explicitly listed as the third point in Deryk Vander Weyer's more specific, proactive definition of Bank Marketing. His framework outlines a strategic process that includes identifying markets, assessing needs, setting goals and plans, and adapting to the market environment, positioning marketing as a core business development function.

May/June 2012

91. The text states "if the 'process' element is not taken care of, the other Ps will not be effective." What does this imply?
(A) Process is the only truly important element in the modern marketing mix.
(B) The Process element is solely about the speed of a financial transaction.
(C) The other six Ps are merely subsets of the over-arching Process element.
(D) A poor customer journey can ruin a good product and a fair price.

Ans :

(D) A poor customer journey can ruin a good product and a fair price.
This statement highlights the critical, interdependent role of 'Process'. Even if a bank has a great Product and a competitive Price, a cumbersome, slow, or confusing Process (like a difficult application or poor service delivery) can lead to customer dissatisfaction, rendering the other elements ineffective. The overall experience matters.

Oct/Nov 2014

92. Which of the following activities falls under the 'Marketing Planning' stage?
(A) Conducting a detailed SWOT analysis of key competitors.
(B) Setting specific strategies for targeting and positioning.
(C) Training front-line staff on the features of a new product.
(D) Auditing the financial results of a recent advertising campaign.

Ans :

(B) Setting specific strategies for targeting and positioning.
The description of the Marketing Planning stage explicitly mentions that "There are specific strategies for targeting, positioning, marketing mix and marketing expenditure for each business, product or brand." SWOT analysis is in the Analysis stage, staff training is in Implementation, and auditing results is in the Control stage.

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evaluating performance against goals to allow for corrective action. It is not a single, one-time activity but a continuous function throughout the marketing campaign's lifecycle.

Oct/Nov 2024

66. Match the definition of Bank Marketing (List-I) with the person who gave it (List-II).

List-I (Definition)

P. 'the creation and delivery of customer satisfying services at a profit to the bank'

Q. 'the matching of bank's resources with the customer's needs in the most profitable manner'

R. A proactive business strategy involving identifying markets, assessing needs, setting goals, and adapting

List-II (Person)

1. Deryk Vander Weyer
2. Sir Frederick Seebohmn
3. Kenneth Andrew

(A) P-2, Q-3, R-1
(B) P-1, Q-2, R-3
(C) P-3, Q-1, R-2
(D) P-2, Q-1, R-3

Ans :

(A) P-2, Q-3, R-1
The chapter attributes these specific definitions to the individuals listed. Sir Frederick Seebohmn gave the definition in 'P'. Kenneth Andrew provided the definition in 'Q'. The more specific, four-point proactive strategy in 'R' was spelt out by Deryk Vander Weyer. This matching correctly aligns each concept with its originator.

May/June 2017

67. Which of the 7 Ps is primarily concerned with developing an efficient packaging for services and providing items like Debit/ATM cards to enhance the customer's perception?

(A) Promotion
(B) Process
(C) Physical Evidence
(D) Product

Ans :

(C) Physical Evidence
'Physical Evidence' is the element focused on adding tangible aspects to an intangible service. Developing efficient packaging and providing items like Debit/ATM cards and personalized cheque books are classic examples of creating physical cues that customers can see and hold, thereby making the service feel more real and substantial.

Oct/Nov 2005

68. Deryk Vander Weyer's four-part definition of bank marketing includes identifying profitable markets, assessing customer needs, and setting business goals. What is the fourth component of his definition?

(A) Minimizing operational costs and all associated risks
(B) Maximizing the bank's shareholder return on equity
(C) Ensuring strict compliance with all banking regulations
(D) Adapting to a changing environment in the market place

Ans :

(D) Adapting to a changing environment in the market place
Deryk Vander Weyer outlines a four-part definition of bank marketing as a proactive strategy. The fourth point is "Adapting to a changing environment in the market place." This emphasizes the dynamic nature of marketing, requiring banks to be flexible and responsive to shifts in competition, technology, and customer preferences.

May/June 2020

69. A bank decides to offer a special, higher interest rate on savings accounts for senior citizens. This decision is a strategic choice related to which two elements of the marketing mix?

(A) Promotion and Place
(B) People and Process
(C) Product and Price
(D) Price and Promotion

Ans :

(C) Product and Price
The bank is targeting a specific segment (senior citizens) with a modified offering, which relates to 'Product' (or product differentiation). The core of the offer is the higher interest rate, which is a direct application of the 'Price' element. Therefore, this strategy involves a combination of Product and Price decisions.

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retail customers. What is identified as the key to the "augmented marketing" demonstrated by the fourth person?

(A) A strategic focus on offering the lowest possible transaction prices
(B) The execution of frequent and aggressive advertising campaigns
(C) A product strategy based on providing a single, specialized offering
(D) Continuous contact, understanding, and transparency

Ans :

(D) Continuous contact, understanding, and transparency
The text concludes the story by highlighting that continuous contact, understanding, transparency, and respecting the customer's views enable the marketer to present the right product at the right time. This deep relationship-building approach, exemplified by the fourth person, is the key to augmented marketing and maximizing customer wallet share.

May/June 2021

53. In the "Customer is King" story, the evolving relationship with the fourth person, which eventually leads to his marriage to the king's daughter, symbolizes the ultimate goal of retail banking marketing. What is this goal?

(A) Achieving a single, one-time high-value transaction with a client
(B) Selling the maximum number of different products in a single day
(C) Building a deep, long-term relationship to get maximum wallet share
(D) Minimizing the average cost of new customer acquisition and onboarding

Ans :

(C) Building a deep, long-term relationship to get maximum wallet share
The story's progression, from an annual visit to a marriage alliance, illustrates the deepening of a relationship over time. This is an analogy for augmented marketing in retail banking, where the goal is to move beyond simple transactions to build lasting relationships, understand customer needs deeply, and capture the maximum possible share of their financial business.

Oct/Nov 2010

54. The story mentions that the fourth person's family became very popular and respected due to their humble and helpful nature. In a banking context, what element of the 7 Ps does this "nice behaviour" most closely relate to?

(A) Price
(B) People
(C) Place
(D) Product

Ans :

(B) People
The family's behaviour—being humble, helpful, and nice—directly relates to the human element of the service interaction. In banking, this corresponds to the 'People' aspect of the marketing mix, where the attitude, skills, and behavior of the bank staff play a crucial role in shaping the customer experience and building relationships.

NODIA

May/June 2005

55. Which of the following correctly identifies the stages of the marketing process in chronological order?

(A) Planning, Analysis, Implementation, Control
(B) Analysis, Implementation, Planning, Control
(C) Planning, Implementation, Analysis, Control
(D) Analysis, Planning, Implementation, Control

Ans :

(D) Analysis, Planning, Implementation, Control
The chapter presents the marketing process in a clear sequence. It begins with Marketing Analysis (understanding the environment), followed by Marketing Planning (setting goals and strategy), then Marketing Implementation (executing the plan), and finally Marketing Control (measuring and correcting). This logical flow ensures a structured approach to marketing efforts.

Oct/Nov 2022

56. Consider the following elements of a marketing plan mentioned under the 'Marketing Planning' stage:

1. Executive summary
2. Action programmes
3. Budgeting and controls
4. SWOT Analysis

Which of these elements are part of the marketing plan setup AFTER the initial draft or "offering" is created?

parameters." This means adjustments can be made either to day-to-day activities or to the overall long-term marketing strategy.

May/June 2006

75. The ultimate objective of promotional measures like advertising and personal selling is to:
(A) Win prestigious industry awards for campaign creativity.
(B) Fulfill all regulatory communication requirements for the year.
(C) Cause a short-term increase in the bank's public stock price.
(D) Win the customer and make them avail the bank's products & services.

Ans :

(D) Win the customer and make them avail the bank's products & services.
The text is very clear on this point. It states, "But the ultimate objective of these promotional measures is only to win the customer and make him to avail the bank's products & services." All promotional efforts are directed towards the fundamental business goal of customer acquisition and usage of services.

Oct/Nov 2017

76. Which combination of the 7 Ps is most relevant when a bank provides a well-designed, easy-to-use mobile banking app?
(A) Product, People, and Price
(B) Place, Process, and Physical Evidence
(C) Promotion, Price, and People
(D) Product, Place, and Promotion

Ans :

(B) Place, Process, and Physical Evidence
The app itself serves as the 'Place' (an e-format channel). The user experience and flow within the app represent the 'Process'. The app's icon, interface, and overall design act as 'Physical Evidence', giving a tangible feel to the intangible service. This combination best describes the mobile app's role in the marketing mix.

May/June 2008

77. The success of retail banking is dependent on the effective marketing of its products and services. According to the summary, this can be best achieved through:
(A) Focusing marketing efforts only on high-net-worth individuals.
(B) The implementation of aggressive pricing strategies alone.
(C) The different elements of the marketing mix.
(D) A strategy of expanding the physical branch network exclusively.

Ans :

(C) The different elements of the marketing mix.
The 'Let Us Sum Up' section begins by stating that success can be best achieved with the different elements of the marketing mix (Product, Price, Promotion, Place, People, Process, and Physical Evidence). It emphasizes that the "right mix will deliver the right results," highlighting the comprehensive nature of the marketing strategy.

Oct/Nov 2013

78. Which of the following is an example of an 'Other Service product' as categorized under the 'Product' element?
(A) A standard savings account
(B) A residential home loan
(C) A long-term fixed deposit
(D) A credit card

Ans :

(D) A credit card
The text mentions that retail banking products include Deposit, Asset, and Other Service products. Savings accounts and fixed deposits are deposit products. A home loan is an asset product. A credit card, which is a payment and short-term credit facility, falls under the category of 'Other Service products'.

May/June 2015

79. Consider the following statements:
Statement 1: The success of the seven Ps is measured by the bank's profitability ratios.
Statement 2: The success of the seven Ps is measured by the responses from customers regarding need satisfaction.
Which statement is more aligned with the chapter's content?
(A) Only Statement 2
(B) Only Statement 1
(C) Both are equally aligned
(D) Neither is aligned

Ans :

(A) Only Statement 2
The text explicitly states that "the success of the seven Ps and the marketing strategies are measured

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Oct/Nov 2015

70. What is the key difference between retail banking and corporate banking that necessitates a strong marketing focus in the former?
(A) Retail banking deals with much smaller average transaction values.
(B) Retail banking is driven by a large number of customers.
(C) Corporate banking is inherently less profitable than retail banking.
(D) Retail banking is significantly less regulated than corporate banking.

Ans :

(B) Retail banking is driven by a large number of customers.
The introduction clearly states that retail banking is "primarily driven by number of customers each bank possesses." Since profits must be derived from a large clientele base, marketing becomes a top priority to build and maintain this customer base, unlike corporate banking which may focus on a smaller number of high-value clients.

May/June 2013

71. Which of the following is NOT a form of promotion mentioned in the chapter?
(A) Personal Selling
(B) Advertisement
(C) Publicity
(D) Price reduction

Ans :

(D) Price reduction
Price reduction is a tactic related to the 'Price' element of the marketing mix. While it can be part of a promotional campaign, it is fundamentally a pricing strategy. The chapter lists Personal Selling, Advertisement, Sales Promotions, and Publicity as the various ways a marketer develops promotion strategies.

Oct/Nov 2021

72. The statement "Now place has no physical boundaries" refers to the impact of what?
(A) Technology enabling internet and mobile banking
(B) The rapid globalization of international financial markets
(C) The widespread deregulation of the domestic banking industry
(D) The recent merger of several large, multinational banks

Ans :

(A) Technology enabling internet and mobile banking
The text explains that technology has shifted the concept of 'Place' from physical branches to e-formats. Internet and mobile banking allow customers to access services from anywhere, anytime. This technological shift is what leads to the conclusion that 'Place' in banking no longer has physical boundaries tied to branch locations.

May/June 2024

73. What is the primary advantage of Physical Channels like branches, as implied in the summary?
(A) They offer inherently faster transaction speeds than all remote channels.
(B) They provide a personal touch to the service process.
(C) They allow universal access to accounts from any bank's ATM network.
(D) They are best suited for simple, routine transactions like balance enquiries.

Ans :

(B) They provide a personal touch to the service process.
The summary section draws a clear distinction, stating, "While branches give the personal touch to the service process, remote channels give the freedom to avail the services at their convenience." This implies that the key strength and advantage of physical branches is the human interaction and personalized service they can offer.

Oct/Nov 2008

74. In the marketing control stage, corrective action can be taken at two levels. What are these levels?
(A) The operational level or the strategic level
(B) The individual customer level or the bank employee level
(C) The specific product level or the overall brand level
(D) The local branch level or the national head-office level

Ans :

(A) The operational level or the strategic level
The chapter states that in the marketing control stage, "corrective action is taken at the operational level or the strategic level depending upon the relevance of the control aspect of the

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(B) The control process should not use any data provided by the marketing department.
(C) The control process should be conducted without the management's knowledge.
(D) The evaluation should be free from the influence of those being evaluated.

Ans :

(D) The evaluation should be free from the influence of those being evaluated.
The characteristic of being 'independent' in the context of control and auditing means that the assessment should be objective and not influenced by the individuals or departments whose performance is being measured. This ensures an unbiased evaluation of whether marketing goals are being met, leading to credible findings.

May/June 2016

85. "Thus marketing control needs to be unbiased, comprehensive, systematic, independent and periodic."
A bank reviews its marketing performance only when sales figures drop significantly. Which characteristic of effective marketing control is being violated?
(A) Unbiased
(B) Comprehensive
(C) Periodic
(D) Systematic

Ans :

(C) Periodic
The source states that control should be 'periodic', meaning it should occur at regular, planned intervals. By only reviewing performance when a problem arises (a significant drop in sales), the bank is being reactive rather than periodic. A periodic review would help identify trends and potential issues before they become significant problems.

Oct/Nov 2009

86. "The four young persons are four ways of marketing of products to the retail customers. Continuous contact, understanding, transparency, respecting the views and feelings enable us to present the product in time to suit the individual requirements, remains the key of augmented marketing of retail products."
According to this source, what is the key to "augmented marketing"?
(A) A singular focus on executing one-time, high-value transactions
(B) A relationship-based approach to understand and meet individual needs
(C) Offering the same standardized product to all customers to ensure consistency
(D) Marketing products exclusively through digital and automated channels

Ans :

(B) A relationship-based approach to understand and meet individual needs
The source explicitly links "augmented marketing" to activities like continuous contact, understanding, transparency, and respecting customer views. These actions describe a deep, ongoing relationship focused on understanding the customer as an individual to serve their specific requirements over time, which is the essence of a relationship-based approach.

May/June 2023

87. A bank employee who is knowledgeable, courteous, and efficient directly enhances which element of the marketing mix?
(A) Product
(B) Price
(C) Place
(D) People

Ans :

(D) People
The 'People' element refers to the human factor in the service delivery chain. The skills, attitude, and effectiveness of bank employees, such as the one described, are a direct manifestation of this 'P'. Their performance significantly impacts the customer's experience and their perception of the bank's service quality.

Oct/Nov 2018

88. The 'Let Us Sum Up' section highlights that channels enhance the customer experience. The level of satisfaction ultimately depends on:
(A) How the customers' expectations are met by the banks.
(B) The total number of different channels a bank offers.
(C) The underlying technological sophistication of the channels.
(D) The direct and indirect cost to the customer of using the channels.

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only by the responses from the customers from the point of view of need satisfaction." While profitability is an ultimate goal, the direct measure of marketing effectiveness is customer response and satisfaction.

Oct/Nov 2012

80. The phrase "tweaked and re-engineered" in the context of the seven Ps suggests that:
(A) The seven Ps are static concepts that cannot be changed once defined.
(B) Banks must constantly adapt and refine their marketing mix elements.
(C) The seven Ps are a purely theoretical concept with no practical application.
(D) Only technology-related Ps like 'Place' are subject to being changed.

Ans :

(B) Banks must constantly adapt and refine their marketing mix elements.
The text states that the "difference lies in how the different dimensions in the above Ps are tweaked and re-engineered by the retail bankers." This implies a dynamic process where banks actively adjust and improve each element of the marketing mix to create winning combinations and gain a competitive edge.

May/June 2011

81. The chapter suggests that in retail banking, there can be "more than one winner." What does this imply about the retail banking market?
(A) The market is a natural monopoly that will be controlled by one bank.
(B) The market is vast, allowing different banks to succeed with different strategies.
(C) The market is too small and saturated to support multiple competing banks.
(D) Winning market share is based purely on luck and not on strategy.

Ans :

(B) The market is vast, allowing different banks to succeed with different strategies.
The text says, "It is a fact that there is more than one winner in retail banking. That shows that the retail banking canvas is very huge and there is place for everybody to play their game and win their customers." This indicates a large and diverse market where multiple players can thrive.

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Oct/Nov 2020

82. Which of the following is NOT a core activity focused on the customer in retail banking marketing?
(A) Focusing marketing efforts only on existing, loyal customers.
(B) Identifying the customers' current and future needs.
(C) Developing appropriate products to satisfy their identified needs.
(D) Making them avail the bank's products and services continuously.

Ans :

(A) Focusing marketing efforts only on existing, loyal customers.
While retaining existing customers is important, a comprehensive marketing strategy also involves acquiring new customers. The text focuses on building up the customer base from a large clientele, which includes both acquisition and retention. The other three options are explicitly listed as customer-focused activities in the chapter.

May/June 2022

83. The entire marketing process, from analysis to control, is designed to help an organization achieve what?
(A) A consistently positive public image and brand reputation
(B) A steady reduction in its operational workforce through automation
(C) Its business objectives of growth and profit
(D) Full compliance with all government and industry regulations

Ans :

(C) Its business objectives of growth and profit
The chapter states that the "ultimate objectives of the above initiatives are to achieve the business objectives of growth and profit." The entire structured process of marketing is a strategic tool aimed at driving the commercial success of the organization through effective customer engagement and market positioning.

Oct/Nov 2023

84. The need for marketing control to be 'independent' suggests that:
(A) The entire control process must be conducted by an external third-party agency.

May/June 2019

93. A bank's clean, modern, and well-maintained branch premises contribute to which element of the marketing mix?
(A) Product
(B) Process
(C) Physical Evidence
(D) People

Ans :

(C) Physical Evidence
'Physical Evidence' includes all the tangible cues that help communicate and represent the service. The physical environment where the service is delivered, such as the branch's appearance, layout, and ambiance, is a crucial part of this evidence. It influences customer perceptions of the bank's quality and professionalism before any transaction occurs.

Oct/Nov 2006

94. The concept of "augmented marketing of retail products" as described in the chapter is best defined as:
(A) A short-term tactic involving selling a single product at a discounted price
(B) The practice of bundling products together for a single, one-time sales transaction
(C) A promotional strategy involving advertising across all available media channels
(D) Building a long-term relationship to meet evolving customer needs

Ans :

(D) Building a long-term relationship to meet evolving customer needs
The story of the fourth person illustrates augmented marketing. It is not about a single transaction but about creating an ongoing relationship (the king's annual visit) where value is continuously added (road, house renovation). This allows the marketer to understand needs deeply and present solutions in time, maximizing the relationship's value.

May/June 2021

95. Which of the following questions is most likely to be answered during the 'Marketing Implementation' stage?
(A) Who will be responsible for the product launch event?
(B) What are our primary strengths and weaknesses?
(C) What are our specific marketing goals for the next fiscal year?
(D) Did we successfully meet our sales targets for the last quarter?

Ans :

(A) Who will be responsible for the product launch event?
The 'Marketing Implementation' stage answers the "who, where, when and how" for the offering. Determining who is responsible for a specific launch activity is a classic implementation question. Strengths/weaknesses are for Analysis, goals are for Planning, and sales targets review is for the Control stage.

Oct/Nov 2010

96. What is the fundamental reason banks focus on building up a broad customer base in retail banking?
(A) To comply with government regulations for financial inclusion
(B) Because profits have to be derived from a large clientele base
(C) To create a more diversified and stable loan portfolio
(D) To gather a large amount of transactional data for analysis

Ans :

(B) Because profits have to be derived from a large clientele base
The introduction clearly states this economic rationale: "Since profits have to be derived from a large clientele base, banks would be more comfortable with a broader base and would focus on building up the customer base." The business model of retail banking relies on volume and scale to achieve profitability.

May/June 2005

97. The phrase "Customer is King" is used in the chapter to emphasize that:
(A) Customers are considered to be always right, even when they are factually wrong.
(B) Customers have the power to make decisions and influence the bank.
(C) Banks should focus their marketing efforts only on royal or high-status clients.
(D) Customers should be treated with a high degree of formal and distant respect.

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(C) BFs are authorized to handle cash transactions directly, while BCs are limited to non-financial advisory services.
(D) BCs can conduct transactions on the bank's behalf, while BFs can only refer clients and facilitate processes.

Ans :

(D) BCs can conduct transactions on the bank's behalf, while BFs can only refer clients and facilitate processes.
The RBI guidelines clearly distinguish the roles of Banking Correspondents and Business Facilitators. BCs act as agents of the bank and are permitted to conduct transactions on its behalf. In contrast, BFs have a more limited role; they can refer potential clients and facilitate the transaction process but are not allowed to personally carry out the transactions themselves.

Oct/Nov 2016

12. Which of the following is a key advantage of the Banking Correspondent (BC) channel for a bank aiming for financial inclusion?
(A) It requires the creation of extensive new branch infrastructure in remote areas.
(B) It facilitates doorstep banking, including account opening and loan recovery.
(C) It ensures that all target clients are high-net-worth individuals.
(D) It is a less cost-effective model for scaling up compared to opening new branches.

Ans :

(B) It facilitates doorstep banking, including account opening and loan recovery.
The BC channel is an effective medium for reaching the unbanked population. A significant advantage is its ability to provide doorstep banking services. This includes essential activities like opening new accounts, disbursing loans, and managing loan recovery directly at the customer's location, making banking more accessible and convenient for people in remote areas.

May/June 2022

13. According to RBI guidelines, what is a mandatory requirement for an individual to be authorised to function as a Business Correspondent (BC)?
(A) They must be a permanent employee of the bank.
(B) They must have a minimum post-graduate degree in finance.
(C) They must undergo a mandatory certification process.
(D) They must operate exclusively from a Panchayat Office.

Ans :

(C) They must undergo a mandatory certification process.
To ensure a minimum standard of knowledge and professionalism among banking intermediaries, the Reserve Bank of India has mandated a certification process. All individuals must successfully complete this certification before they can be authorized by a bank to operate as a Business Correspondent, ensuring they are equipped to handle their responsibilities effectively and ethically.

Oct/Nov 2009

14. What are the two main objectives for banks in setting up Automated Teller Machines (ATMs)?
(A) To deliberately increase lobby traffic in branches and heavily promote in-person advisory services.
(B) To exclusively offer complex investment advisory services and cross-sell insurance products.
(C) To completely replace all branch functions and cease the issuance of physical debit cards.
(D) To provide customer convenience and migrate routine transactions away from branch counters.

Ans :

(D) To provide customer convenience and migrate routine transactions away from branch counters.
Banks establish ATMs with two primary goals. First, to provide customers with the convenience of withdrawing money at any time, according to their will and pleasure. Second, to reduce the number of routine transactions at branch counters, as ATM transactions are comparatively less costly for the bank, thereby optimizing operational costs and freeing up staff for more complex tasks.

May/June 2014

15. What is the key distinction between an 'On-Site ATM' and an 'Off-Site ATM'?

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CHAPTER 18

Delivery Channels in Retail Banking

NOIDA

May/June 2018

1. According to the principles of retail banking, what is the observed relationship between a customer's satisfaction with a bank's delivery channels and their product ownership?

(A) Channel satisfaction has no demonstrable correlation with the number of products a customer owns with a bank.

(B) Customers who are "very satisfied" with all channels tend to own a greater number of products from the bank.

(C) Customers who are "not very satisfied" with channels tend to own more products as they actively seek better service options.

(D) Channel satisfaction only impacts the ownership of specific liability products, such as savings accounts, not asset products like loans.

Ans :

(B) Customers who are "very satisfied" with all channels tend to own a greater number of products from the bank.

Customer satisfaction across various delivery channels positively influences their engagement with the bank. Highly satisfied customers are more likely to deepen their relationship by purchasing a wider range of financial products and services, indicating a direct link between channel experience and the breadth of product ownership, as opposed to dissatisfied customers who purchase fewer products.

Oct/Nov 2013

2. In the context of multi-channel distribution in retail banking, which customer segment is most likely to find direct channels like branches to be the best fit for their needs?

(A) Conservative customers who value personal interaction and a physical presence.

(B) Young and tech-savvy customers who prefer speed and convenience.

(C) High-net-worth individuals who primarily use wealth management services.

(D) Non-resident customers who require remote access to their accounts.

Ans :

(A) Conservative customers who value personal interaction and a physical presence.

Multi-channel strategy caters to diverse customer segments. Direct channels, such as the physical branch, are particularly suitable for conservative customers. This segment often prefers face-to-face interaction, the assurance of a physical location, and the human touch in their banking transactions, contrasting with tech-savvy customers who gravitate towards remote electronic channels for their banking needs.

May/June 2024

3. Based on the classification of retail banking delivery channels, which of the following are categorized under 'Electronic & Remote Channels'?

(A) Branch and Extension Counters

(B) Branch, ATMs, and Internet Banking

(C) ATMs, Internet Banking, and Mobile Banking

(D) Extension Counters, Mobile Banking, and ATMs

Ans :

(C) ATMs, Internet Banking, and Mobile Banking

Retail banking delivery channels are broadly divided into two main categories. The 'Physical Channels' include the traditional Branch and its Extension Counters. In contrast, the 'Electronic & Remote Channels' are those that allow customers to transact without visiting a branch, which primarily consist of Automated Teller Machines (ATMs), Internet Banking, and Mobile Banking platforms.

Oct/Nov 2005

4. Which of the following is a primary reason for the continued preference for the 'brick and mortar' branch format despite the availability of numerous remote channels?

(D) T+7 days

Ans :

(C) T+5 days
For failed ATM transactions where the customer's account is debited without cash being dispensed, banks are mandated to resolve the complaint by re-crediting the amount within a maximum of T+5 days from the date of the complaint. 'T' represents the day of the transaction. Failure to do so within this timeline makes the bank liable for compensation.

Oct/Nov 2011

20. What is the compensation payable by a bank for delay in re-crediting the amount for a failed ATM transaction beyond the mandated T+5 days?
(A) ₹50 per day of delay
(B) A flat fee of ₹500
(C) Interest at the savings bank rate
(D) ₹100 per day of delay

Ans :

(D) ₹100 per day of delay
To ensure prompt resolution of customer complaints regarding failed ATM transactions, the RBI has stipulated a penal provision. If a bank fails to re-credit the customer's account within the T+5 day timeline, it must pay a compensation of ₹100 for each day of delay beyond T+5 days. This compensation must be credited automatically without any claim from the customer.

May/June 2017

21. What defines a "White Label ATM" (WLA)?
(A) An ATM that is both owned and operated by the bank but is located in an off-site commercial area.
(B) An ATM that is programmed to dispense only high-denomination currency notes like ₹2000.
(C) An ATM that is set up, owned, and operated by an authorized non-bank entity.
(D) An ATM located in a corporate park exclusively for the employees of a specific partner company.

Ans :

(C) An ATM that is set up, owned, and operated by an authorized non-bank entity.
White Label ATMs (WLAs) are distinct from bank-owned ATMs. They are established, owned, and operated by non-bank entities incorporated in India, which are called White Label ATM Operators (WLAOs). These ATMs provide banking services to customers of all banks based on the cards issued by them, with the WLAO's role focused on transaction acquisition.

Oct/Nov 2023

22. Constant ATM breakdowns and "cash out" situations can lead to which primary type of risk for a bank?
(A) Credit Risk
(B) Reputation Risk
(C) Market Risk
(D) Operational Risk

Ans :

(B) Reputation Risk
While ATM failures are a form of operational issue, their most damaging consequence is the impact on the bank's image. Frequent breakdowns and cash-out situations lead to customer irritation and negative publicity, reflecting poorly on the bank's efficiency and service quality. This damages the bank's standing in the eyes of the public, creating significant reputation risk and potentially causing customers to switch banks.

May/June 2005

23. According to a review by the RBI, which of the following is NOT a measure initiated by banks to minimize frequent ATM breakdowns?
(A) Online system for immediate notification to vendors about 'down' ATMs.
(B) Periodic preventive maintenance of the ATM machines.
(C) Corrective action based on Root Cause Analysis (RCA).
(D) Increasing the number of free transactions for customers.

Ans :

(D) Increasing the number of free transactions for customers.
To address frequent ATM breakdowns, banks have implemented several operational and technical measures. These include real-time monitoring, automated alerts to vendors, preventive maintenance schedules, and root cause analysis of failures. Increasing the number of free transactions is a customer service policy and does not technically contribute to reducing the frequency of machine breakdowns.

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outcome like an increase in market share within a fixed period. Market share is influenced by many other factors, including competition, product pricing, and overall economic conditions.

Oct/Nov 2007

8. The evolution of service delivery in modern bank branches, particularly in metro and urban centres, has led to the introduction of which concept that brings the customer closer to the service personnel?

(A) The Single Window Concept
(B) The Extended Counter System
(C) The Segregated Service Model
(D) The Corporate Colour Scheme

Ans :

(A) The Single Window Concept
The advent of technology and core banking solutions has transformed branch service delivery. The 'Single Window Concept' has replaced traditional long counters with individually designed desks. This setup facilitates a one-to-one relationship, allowing a customer to avail multiple services from any single desk, thereby making the interaction more personal and efficient in modern urban branches.

May/June 2019

9. What is the primary objective of establishing specialised branches like "Personal Banking Branches" and "Retail Asset Processing Centres (RAPCs)"?

(A) To exclusively serve the financial needs of high-net-worth individuals and large corporate clients.
(B) To systematically reduce the total number of physical branches and aggressively promote digital banking.
(C) To enhance service delivery effectiveness by prescribing Turn Around Time (TAT) for retail products.
(D) To focus solely on gathering liability products like deposits and managing government-sponsored schemes.

Ans :

(C) To enhance service delivery effectiveness by prescribing Turn Around Time (TAT) for retail products.
Banks have moved from a 'one shop for all' approach to specialization. The creation of specialized units like Personal Banking Branches and Retail Asset Processing Centres (RAPCs) aims to improve service delivery for retail customers. A key objective is to enhance efficiency and competitiveness by prescribing and adhering to specific Turn Around Times (TAT) for loan processing.

Oct/Nov 2022

10. In many private and public sector banks, processes like the opening of accounts and the issuance of debit cards are handled by a centralised back-office mechanism. What is the main purpose of this approach?

(A) To achieve process standardisation and ensure speedier compliance with bank requirements.
(B) To increase the day-to-day operational autonomy and decision-making power of individual branches.
(C) To significantly reduce the need for any direct customer interaction at the branch-level front office.
(D) To localize all banking activities and fully customize them for the specific needs of each branch.

Ans :

(A) To achieve process standardisation and ensure speedier compliance with bank requirements.
The use of a centralised back-office for tasks such as account opening and card issuance is aimed at standardising processes across the bank and accelerating compliance with both internal requirements and customer expectations. This method allows for improved benefits like personalised instruments while ensuring uniformity and efficiency, rather than localizing or reducing customer interaction at the front office.

May/June 2006

11. As per RBI guidelines issued in January 2006 for deepening financial inclusion, what is the fundamental difference between a Banking Correspondent (BC) and a Business Facilitator (BF)?

(A) BFs are considered permanent bank employees, whereas BCs are always third-party independent agents.
(B) BCs are permitted to operate only in designated urban areas, while BFs are strictly restricted to rural regions.

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(B) It accepts cash deposits and also dispenses cash.

A Cash Recycling Machine (CRM) offers a significant advantage over a traditional ATM by performing a dual function. It not only dispenses cash for withdrawals but also accepts cash deposits from customers. The deposited cash can then be sorted, authenticated, and used for future withdrawals, which offers operational efficiency and cost savings for the bank.

May/June 2023

29. One of the value propositions of Cash Recycling Machines (CRMs) is reduced costs for the bank. How is this achieved?

(A) By systematically charging customers a higher convenience fee for every transaction performed.

(B) By completely eliminating the need for a physical security guard to be posted at the machine's location.

(C) By using cash from deposits for withdrawals, thereby minimizing idle cash and replenishment costs.

(D) By programming the machine to operate only during branch business hours to conserve electricity.

Ans :

(C) By using cash from deposits for withdrawals, thereby minimizing idle cash and replenishment costs.

CRMs enhance cost efficiency by creating a closed loop for cash. The cash deposited by customers is recycled and used to fulfill withdrawal requests. This reduces the frequency of cash replenishment by the bank or its agencies, minimizes the amount of idle cash sitting in the machine, and lowers overall cash handling and interest costs for the bank.

Oct/Nov 2019

30. What is the primary function of a Point of Sale (POS) terminal in a retail banking context?

(A) To enable cash deposits at merchant establishments.

(B) To function as a mini-branch for opening new accounts.

(C) To dispense high-value cash withdrawals for corporate clients.

(D) To enable payment via credit and debit cards for purchases.

Ans :

(D) To enable payment via credit and debit cards for purchases.

Point of Sale (POS) terminals are electronic devices that facilitate cashless transactions at merchant locations. Their predominant function is to enable customers to make payments for goods and services using their credit cards, debit cards, or prepaid cards by accessing their bank account and effecting the payment for the purchase amount to the merchant.

May/June 2012

31. What is the current per-day limit for cash withdrawal at POS terminals in Tier I and Tier II centres in India?

(A) ₹1,000

(B) ₹2,000

(C) ₹5,000

(D) ₹10,000

Ans :

(A) ₹1,000

While the RBI enhanced the limit for cash withdrawal at POS terminals for Tier III to VI centres, the limit for major urban centres remains unchanged. For customers using their debit cards or open system prepaid cards at POS terminals located in Tier I and Tier II centres, the per-day cash withdrawal limit is capped at ₹1,000.

Oct/Nov 2024

32. In his 1997 observations, Ernest T. Parkins predicted that the movement of banking services to electronic delivery would lead to certain changes. Which of the following was one of those predicted changes?

(A) A significant increase in the number of traditional, stand-alone branches to support electronic services.

(B) A reduction of geographic barriers and the commoditization of many standard banking products.

(C) A marked decrease in competition from non-bank entities due to high entry barriers for technology.

(D) A complete and permanent elimination of all service fees for all types of financial transactions.

Ans :

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(A) On-Site ATMs are situated at branch premises, whereas Off-Site ATMs are located away from the branch.
(B) On-Site ATMs only permit cash withdrawal, while Off-Site ATMs offer a complete range of banking services.
(C) On-Site ATMs are directly operated by the bank, while Off-Site ATMs are exclusively operated as White Label ATMs.
(D) On-Site ATMs are reserved for bank staff use only, while Off-Site ATMs are available for the general public.

Ans :

(A) On-Site ATMs are situated at branch premises, whereas Off-Site ATMs are located away from the branch.
The classification of ATMs as On-Site or Off-Site is based on their location. On-Site ATMs are installed within the premises of a bank branch itself, offering convenient access for customers visiting the branch. Off-Site ATMs are strategically placed in locations away from branches, such as shopping malls, airports, and busy markets, to provide wider accessibility.

Oct/Nov 2025

16. The networking of ATMs across different banks in India was facilitated by arrangements like "National Financial Switch (NFS)". What capability did this provide to customers?
(A) The ability to open a new bank account directly through an ATM.
(B) The ability to withdraw cash from other banks' ATMs.
(C) The ability to apply for a loan and get instant approval at an ATM.
(D) The ability to use ATMs for international fund transfers exclusively.

Ans :

(B) The ability to withdraw cash from other banks' ATMs.
Common networking arrangements such as the National Financial Switch (NFS) were crucial for enhancing ATM utility. They created an interoperable network, allowing customers of a member bank to use the ATMs of any other member bank for transactions like cash withdrawal. This significantly expanded the accessibility of ATM services beyond a customer's own bank network.

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May/June 2020

17. For a savings bank account holder, what is the minimum number of free transactions (including financial and non-financial) that a bank must offer per month at its own ATMs, irrespective of location?
(A) Three
(B) Five
(C) Seven
(D) Ten

Ans :

(B) Five
As per regulatory guidelines, banks are mandated to offer their savings bank account holders a minimum of five free transactions each month at their own ATMs. This limit includes both financial transactions, such as cash withdrawals, and non-financial transactions, like balance enquiries. This rule applies regardless of whether the ATM is located in a metro or non-metro area.

Oct/Nov 2018

18. As per RBI directives effective from January 1, 2022, what is the fee a customer would be required to pay for a transaction at another bank's ATM in a metro location beyond the permissible free limit?
(A) ₹21
(B) ₹15
(C) ₹20
(D) ₹25

Ans :

(A) ₹21
The Reserve Bank of India revised the charges for ATM transactions conducted beyond the free permissible limits. Effective from January 1, 2022, the fee was increased from ₹20 to ₹21 per transaction. This charge is applicable for each transaction, both financial and non-financial, once a customer has exhausted their monthly quota of free transactions at other banks' ATMs.

May/June 2008

19. If an ATM transaction fails (account debited but cash not dispensed), what is the maximum time frame within which the bank must re-credit the customer's account to avoid paying compensation?
(A) T+2 days
(B) T+3 days
(C) T+5 days

(A) Branches offer demonstrably higher interest rates on all deposit products compared to online-only banks.
(B) Remote channels are consistently and significantly more expensive for customers to use for basic transactions.
(C) Branches are the sole and exclusive channel through which all complex loan products can be initiated and availed.
(D) Branches provide tangibility to banking's intangible nature, which builds customer confidence and a sense of security.

Ans :

(D) Branches provide tangibility to banking's intangible nature, which builds customer confidence and a sense of security.
The physical presence of a branch provides a tangible element to the otherwise intangible services of banking. This tangibility, combined with direct interaction with bank staff, builds customer confidence and a sense of security. It allows customers to feel physically involved in their transactions, which enhances the service experience and strengthens their loyalty to the bank.

May/June 2011

5. What is the key benefit of direct communication with bank staff at a branch?
(A) It guarantees completely error-free transactions in all possible customer service scenarios.
(B) It is consistently the fastest method for all types of complex and simple banking transactions.
(C) It facilitates a better understanding of service expectations for both the customer and the bank.
(D) It completely eliminates the need for any form of documentation for availing financial services.

Ans :

(C) It facilitates a better understanding of service expectations for both the customer and the bank.
Direct, face-to-face communication between the customer and bank personnel at a branch facilitates a clearer and more effective exchange of information. This interaction helps in accurately understanding the customer's needs and service expectations, while also allowing the bank to explain its products and procedures clearly, leading to higher satisfaction and a stronger customer relationship.

Oct/Nov 2020

6. According to George Terry's definition, what does "Layout" refer to in the context of a bank branch?
(A) The specific arrangement of marketing materials, brochures, and posters within the branch premises.
(B) The strategic arrangement of physical components to achieve maximum effectiveness and coordination.
(C) The formal hierarchical structure and reporting lines of the staff and management team at the branch.
(D) The detailed schedule of daily operating hours and the allocation of staff shifts for the branch personnel.

Ans :

(B) The strategic arrangement of physical components to achieve maximum effectiveness and coordination.
George Terry defines layout as the strategic arrangement of all physical components within the available floor space. The objective is to achieve maximum effectiveness and coordination of these components, transforming the space into an efficient and attractive unit. In a bank branch, this concept is applied to optimize service delivery, workflow, and customer experience.

May/June 2015

7. Which of the following is NOT considered an advantage of a good branch layout and ambience?
(A) It serves as an image-building tool and generates goodwill for the bank.
(B) It provides a comfortable work environment, acting as a morale booster for staff.
(C) It promotes efficiency by ensuring a smooth flow of services, resulting in time benefits.
(D) It guarantees a measurable increase in the bank's market share within one financial year.

Ans :

(D) It guarantees a measurable increase in the bank's market share within one financial year.
A well-designed branch layout offers numerous benefits like enhanced efficiency, better staff morale, cost optimization, and a positive brand image. However, it does not guarantee a specific

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Oct/Nov 2010

24. What is the regulatory prescription for the resolution of complaints related to short or non-dispensation of cash from an ATM?
(A) Resolution within 7 working days.
(B) Resolution within 24 hours.
(C) Resolution within 15 working days.
(D) Resolution within 30 working days.

Ans :

(A) Resolution within 7 working days.
The regulatory guidelines mandate a specific timeframe for addressing discrepancies in cash dispensation at ATMs. Banks must ensure that such complaints are rectified immediately and are not kept pending beyond 7 working days. This strict timeline, backed by penalties for failure, ensures prompt resolution and protects the customer's interest in cases of short or non-dispensation of cash.

May/June 2021

25. As per an RBI circular dated September 20, 2019, how is a 'failed transaction' defined?
(A) Any transaction where the customer incorrectly enters their Personal Identification Number (PIN).
(B) Any transaction that is declined because it exceeds the customer's pre-set daily withdrawal limit.
(C) A transaction not fully completed for any reason not attributable to the customer's actions.
(D) Any transaction that is performed at a White Label ATM instead of a bank's own ATM.

Ans :

(C) A transaction not fully completed for any reason not attributable to the customer's actions.
The RBI's circular on Harmonisation of TAT provides a clear definition of a 'failed transaction'. It is a transaction that could not be fully completed for reasons outside the customer's control, such as communication link failures, non-availability of cash in an ATM, or session timeouts. This definition is crucial for determining the bank's responsibility for reversal and compensation.

Oct/Nov 2014

26. Which security measure involves using ATM readers that do not swallow the card, thereby pre-empting the capture of data by extraneous skimming devices?
(A) Dip-card readers
(B) Cash retraction facility
(C) Security Screen confirmation
(D) Mystery Shopping

Ans :

(A) Dip-card readers
Dip-card readers are a significant anti-fraud security measure implemented in ATMs. Unlike older readers that 'swallowed' the card for the duration of the transaction, these readers only require the customer to insert and then remove the card. This process minimizes the time the card is in the machine, making it much harder for criminals to capture card data using illegal skimming devices.

May/June 2016

27. In a standard ATM operation, what happens if a customer fails to enter the correct PIN in all three allowed attempts?
(A) The customer is asked to try again after 24 hours.
(B) The transaction is declined, and the card is ejected.
(C) An alert is sent to the local police authorities.
(D) The card is confiscated by the ATM machine.

Ans :

(D) The card is confiscated by the ATM machine.
For security purposes, ATMs are programmed to allow a limited number of attempts for PIN entry, typically three. If a customer enters an incorrect PIN on all of these attempts, the system assumes a potential security risk (such as a lost or stolen card being used) and confiscates the card to prevent fraudulent use.

Oct/Nov 2006

28. What is the primary dual function of a Cash Recycling Machine (CRM) that distinguishes it from a standard ATM?
(A) It dispenses cash and prints detailed bank statements.
(B) It accepts cash deposits and also dispenses cash.
(C) It allows cash withdrawal and booking of fixed deposits.
(D) It dispenses cash and facilitates international remittances.

Ans :

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Ans :

(B) Customers have the power to make decisions and influence the bank.
The text clarifies the analogy by stating, "King means a person who has power to take decisions." In the context of retail banking, the customer enjoys this status. They have the power to choose, to demand, and to take their business elsewhere, making it imperative for the bank (the marketer) to serve them well.

Oct/Nov 2022

98. Which of the following is NOT an element of the marketing mix, according to the keywords listed?
(A) Policy
(B) Place
(C) Process
(D) People

Ans :

(A) Policy
The keywords section provides a definitive list of the marketing mix elements discussed in the chapter: Marketing Mix; Product; Price; Place; Promotion; People; Process; Physical Evidence. 'Policy' is not included in this list of the seven Ps of the retail banking marketing mix.

May/June 2018

99. The ability of a customer to perform a balance enquiry from their mobile phone is an example of a service delivered through which type of channel?
(A) A Physical Channel
(B) A Hybrid Channel
(C) A Remote Channel
(D) A Personal Channel

Ans :

(C) A Remote Channel
The 'Let Us Sum Up' section identifies Mobile Banking as a Remote Channel (also called Electronic Channel). These channels are designed to serve customers outside the branch. A balance enquiry via a mobile phone is a classic example of a transaction performed conveniently from a distance using an electronic device.

Oct/Nov 2016

100. The entire marketing framework presented, from analysis to the 7 Ps, is aimed at creating and delivering what to the customer?
(A) Shareholder dividends
(B) New regulations
(C) Financial liabilities
(D) Value

Ans :

(D) Value
A core definition at the beginning of the chapter states that marketing is "a process through which a marketer creates, communicates and delivers value to customers." All the subsequent strategies, processes, and mix elements are tools and frameworks designed to fulfill this fundamental purpose of creating and delivering value effectively.

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(B) A reduction of geographic barriers and the commoditization of many standard banking products.

Ernest T. Parkins foresaw that electronic delivery channels like the internet would fundamentally alter the banking landscape. He predicted that these channels would lead to a reduction of geographic barriers, allowing banks to reach customers anywhere. He also anticipated the commoditization of banking products, where standardized products would compete primarily on price, increasing competitive pressure.

May/June 2009

33. According to the text, why was the initial acceptance of Internet Banking from public sector bank customers in India described as 'lukewarm'?

(A) Public sector banks consistently charged significantly higher fees for all internet banking services offered.
(B) The comparatively older age profile of their customer base and staff, who were less inclined to adopt new technology.
(C) The technology platforms used by all public sector banks were found to be fundamentally not secure.
(D) Public sector banks did not offer any fund transfer facilities through their initial internet banking platforms.

Ans :

(B) The comparatively older age profile of their customer base and staff, who were less inclined to adopt new technology.

The adoption rate of internet banking in public sector banks was initially slower than in private banks. This was primarily attributed to demographic factors. The customer base and staff of PSBs generally had an older age profile, which was perceived as being less inclined towards adopting new technology compared to the younger, more tech-savvy clientele of new-generation private banks.

Oct/Nov 2015

34. As codified by the Reserve Bank of India, which level of internet banking service allows customers to submit instructions and query account balances but does not permit any fund-based transactions?

(A) Simple Transactional Websites
(B) Basic Level Service
(C) Fully Transactional Websites
(D) Virtual Banking Service

Ans :

(A) Simple Transactional Websites

The RBI categorizes internet banking services into three levels. The second level, described as 'Simple Transactional Websites', represents an intermediate stage. These sites allow customers to perform non-financial transactions like submitting applications, making queries on account balances, and giving instructions, but they do not have the functionality to execute any fund-based transactions like transfers.

May/June 2025

35. A new bank that delivers its services primarily through the internet and other electronic channels and may not have any physical branch presence is known as a:

(A) Traditional Bank
(B) Co-operative Bank
(C) 'Virtual' or 'Internet-only' Bank
(D) Regional Rural Bank

Ans :

(C) 'Virtual' or 'Internet-only' Bank

'Virtual' or 'Internet-only' banks represent a modern banking model that operates without a traditional physical branch network. These banks offer their full range of services, including fully transactional capabilities, primarily through electronic channels like the internet. This model relies entirely on remote delivery to serve its customers, differentiating it from traditional brick-and-mortar institutions.

Oct/Nov 2012

36. Which of the following is identified as a distinctive feature and challenge of internet banking?

(A) It significantly strengthens geographical barriers, thereby limiting a bank's potential customer reach.
(B) It greatly reduces all traditional banking risks, such as credit and market risk, to negligible levels.
(C) It operates within a closed, private, and secure domain controlled entirely by a single regulatory authority.
(D) It creates a strategic risk of losing business if a bank fails to adopt the technology in a timely manner.

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Ans :

(D) It creates a strategic risk of losing business if a bank fails to adopt the technology in a timely manner.

Internet banking is an efficient and cost-effective delivery mechanism. Consequently, banks that fail to adopt this technology in a timely manner face a significant strategic risk. They may lose business and become uncompetitive as customers migrate to other banks that offer the convenience and accessibility of online services, potentially leading to being edged out of the market.

May/June 2013

37. What does the term Public Key Infrastructure (PKI) relate to in the context of internet banking security?

(A) The comprehensive physical security protocol for the bank's primary and secondary data centres.

(B) The bank's official internal policy on customer data privacy, sharing agreements, and consent.

(C) A technology framework for verifying digital signatures and managing public/private encryption keys.

(D) A specific type of network firewall designed to prevent all unauthorized external network access.

Ans :

(C) A technology framework for verifying digital signatures and managing public/private encryption keys.

Public Key Infrastructure (PKI) is a critical technology standard for securing internet banking transactions. It is a framework of hardware, software, policies, and procedures used for creating, managing, distributing, using, storing, and revoking digital certificates. It enables the secure exchange of data through public key encryption and the verification of identities using digital signatures.

Oct/Nov 2017

38. Regarding the impact of internet banking on monetary policy, what is the Central Bank's concern?

(A) Internet banking will cause an immediate and drastic reduction in the overall national money supply.

(B) The potential impact of private initiatives creating electronic money substitutions, such as digital coins.

(C) Internet banking only affects the implementation of credit policy and has no impact on monetary policy.

(D) The widespread use of internet banking for bill payments will inevitably cause a state of hyperinflation.

Ans :

(B) The potential impact of private initiatives creating electronic money substitutions, such as digital coins.

While internet banking used merely as a delivery channel for existing services has a limited impact, central banks are concerned about future developments. If the private sector develops widely accepted electronic money substitutes, such as e-cheques, account-based cards, and digital coins, it could have a more significant and unpredictable impact on the monetary system and its management.

May/June 2010

39. Which of the following customer types or account modes are generally NOT eligible for availing individual internet banking facilities?

(A) Accounts with the mode of operation as 'Either or Survivor'.

(B) Proprietary concern accounts.

(C) Accounts with the mode of operation as 'Single'.

(D) Accounts operated 'Jointly' and accounts in the names of minors.

Ans :

(D) Accounts operated 'Jointly' and accounts in the names of minors.

While internet banking is available for many account types, there are specific eligibility restrictions for security and operational reasons. Accounts that require joint operation (where all parties must sign for a transaction) and accounts held in the name of a minor are typically not eligible for individual internet banking facilities to prevent unauthorized or complex transactional issues.

Oct/Nov 2008

40. According to RBI guidelines, connectivity between an inter-bank payment gateway and a member bank's computer system must be achieved using what type of network?

NODIA

(A) A dedicated leased line network that incorporates appropriate and robust data encryption standards.
(B) The public Internet network, provided it is protected with standard commercial-grade encryption.
(C) A standard dial-up modem connection, as it is considered a legacy secure point-to-point method.
(D) A commercial satellite communication link that operates without any form of data encryption.

Ans :

(A) A dedicated leased line network that incorporates appropriate and robust data encryption standards.
To ensure the highest level of security for inter-bank payment settlements, RBI guidelines prohibit the use of the public internet for connectivity between the payment gateway and member banks. Instead, it mandates the use of a secure, private leased line network. This dedicated connection, combined with appropriate data encryption standards, protects the integrity and confidentiality of financial transactions.

May/June 2007

41. What is the primary role of an Internet Payment Gateway?
(A) To provide free public internet access (Wi-Fi) to all customers visiting physical bank branches.
(B) To function as the bank's primary social media platform for advertising its various products and services.
(C) To serve as a secure interface between online merchants and consumers for processing payments.
(D) To manage the manufacturing and secure distribution of physical debit and credit cards to customers.

Ans :

(C) To serve as a secure interface between online merchants and consumers for processing payments.
An Internet Payment Gateway serves as a crucial link in the e-commerce ecosystem. It provides a secure and easy-to-use interface that facilitates online payments from consumers to merchants. The gateway manages the complex interactions with various fund transfer switches and card networks, shielding the merchant from the underlying technical complexities of payment processing.

Oct/Nov 2021

42. According to a CLSA report, what were the key factors that fuelled the rapid scale-up of online payment systems in India?
(A) The convergence of cheap internet data, high smartphone penetration, and the Aadhaar biometric identity system.
(B) Consistently high bank service charges, limited ATM availability in cities, and very slow cheque clearing cycles.
(C) A complete government ban on the use of credit cards and the demonetization of all high-value currency notes.
(D) The exclusive government promotion of cross-border payments conducted through foreign currency accounts.

Ans :

(A) The convergence of cheap internet data, high smartphone penetration, and the Aadhaar biometric identity system.
The report identifies a combination of three key drivers for the explosive growth of digital payments in India. The widespread availability of affordable mobile internet data, the increasing adoption of smartphones across the population, and the foundational role of the Aadhaar biometric identity system created the perfect ecosystem for the rapid expansion of online and mobile payment platforms.

May/June 2022

43. What was the RBI's proposed solution to conserve bank system resources for small value UPI transactions without changing the user experience?
(A) To begin charging a nominal processing fee for all UPI transactions valued below ₹100.
(B) To temporarily block all small value transactions from being processed during peak business hours.
(C) To require that all small value transactions be authenticated in-person at a physical bank branch.
(D) To enable small value transactions via an 'On-device' wallet within the existing UPI application.

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(C) Their personal Aadhaar number and their registered date of birth.
(D) Their mother's maiden name and their permanent account number (PAN).

Ans :

(A) The last 6 digits of their Debit card, its expiry date, and the OTP received.
To generate a UPI-PIN for a newly added bank account, the user must authenticate their ownership of the account. The standard process requires the user to provide the last six digits of the debit card associated with that account, the card's expiry date, and the One-Time Password (OTP) sent by the issuing bank to the registered mobile number.

May/June 2014

59. What is the mandatory default upper transaction limit that banks must set for customers beginning to use UPI, as per extant guidelines?
(A) ₹10,000
(B) ₹25,000
(C) ₹50,000
(D) ₹1 lakh

Ans :

(D) ₹1 lakh
The UPI transaction limit is pegged to the IMPS limit, with the current upper cap per transaction being ₹1 lakh. Guidelines mandate that banks must set a default limit of ₹1 lakh per transaction for customers starting with UPI. Banks cannot set a different upper limit and must mandatorily adhere to this default setting to ensure uniformity.

Oct/Nov 2025

60. What is the maximum amount a user can send per day from one bank account using the BHIM app?
(A) ₹20,000
(B) ₹40,000
(C) ₹50,000
(D) ₹1,00,000

Ans :

(B) ₹40,000
The BHIM app has specific transaction limits to manage risk. While the limit per transaction is ₹20,000, the overall daily limit is higher. A user can send a maximum of ₹40,000 per day from a single bank account that is linked to their BHIM application. This limit is applicable per bank account, not per user.

May/June 2020

61. If a person links their Aadhaar number to two different bank accounts and someone sends them money via BHIM using their Aadhaar number, which account will be credited?
(A) The account with the higher current balance at the time of transfer.
(B) The sender is given an option to choose which of the two accounts to credit.
(C) The account where the Aadhaar number was linked most recently (chronological order).
(D) The amount will be automatically split and credited equally between the two accounts.

Ans :

(C) The account where the Aadhaar number was linked most recently (chronological order).
When using an Aadhaar number as the payment identifier for a BHIM transaction, the system has a defined logic for crediting the funds. The money is automatically credited to the bank account that was most recently linked with that Aadhaar number. The system follows a last-in, first-out principle based on the chronological order of Aadhaar linking.

Oct/Nov 2018

62. The 99# service is an innovative payment service designed for which specific purpose?
(A) To allow high-value corporate fund transfers between large enterprises.
(B) To provide a secure video conferencing tool for banks to interact with premium customers.
(C) To facilitate international stock trading and forex transactions through a mobile phone.
(D) To enable mobile banking transactions on basic feature phones without an internet connection.

Ans :

(D) To enable mobile banking transactions on basic feature phones without an internet connection.
The 99# service works on the Unstructured Supplementary Service Data (USSD) channel, which does not require an internet data facility. It was specifically launched to extend banking services to every common person, especially those in rural areas who may only have basic feature

NODIA

May/June 2024

47. For transactions up to what amount can banks facilitate mobile banking services without mandatory end-to-end encryption, as per extant guidelines?
(A) ₹5,000
(B) ₹1,000
(C) ₹2,000
(D) ₹10,000

Ans :

(A) ₹5,000
To facilitate small-value transactions and promote digital adoption, guidelines provide some flexibility on encryption requirements. For transactions up to ₹5,000, banks are permitted to facilitate them without implementing end-to-end encryption. However, banks are still required to address the associated risks through other adequate security measures to protect the customer and the transaction.

Oct/Nov 2005

48. Why is the privilege of 'stop payment' very limited or non-existent for mobile banking transactions?
(A) Because all mobile banking transactions are of a very low value and do not warrant this feature.
(B) Because transactions are processed instantaneously and are generally incapable of being reversed once complete.
(C) Because formal stop payment instructions can only be submitted in person at a designated bank branch.
(D) Because the mobile network operators do not technically permit this facility on their infrastructure.

Ans :

(B) Because transactions are processed instantaneously and are generally incapable of being reversed once complete.
Unlike cheques, which have a clearing cycle, mobile banking transactions, especially those via IMPS, are processed in real-time. The transfer of funds is instantaneous. Once a transaction is successfully completed, it is final and irrevocable. This makes it impossible for a bank to act on a 'stop payment' instruction after the fact, as the funds have already been credited.

May/June 2011

49. According to RBI instructions, what should be the approach of banks regarding the registration of customers for mobile banking services?
(A) Registration should be a complex, lengthy process conducted exclusively at the bank's head office.
(B) Banks should offer easy registration via multiple channels, minimizing the need for a branch visit.
(C) Registration should only be available to customers who maintain a minimum account balance of ₹1 lakh.
(D) The time between registration and activation must be at least seven working days for security checks.

Ans :

(B) Banks should offer easy registration via multiple channels, minimizing the need for a branch visit.
To encourage the adoption of mobile banking, the RBI has instructed banks to make the registration process as simple and accessible as possible. Banks should offer multiple channels for registration (e.g., ATM, internet banking, mobile app) to minimize the need for customers to physically visit a branch. The activation time should also be minimal.

Oct/Nov 2020

50. What is a key security principle for mobile banking transactions that involve a debit to the customer's account?
(A) They must be securely validated through a mandatory two-factor authentication (2FA) process.
(B) They must be permitted using only a single factor of authentication, such as a password, for speed.
(C) They must be individually approved via a direct telephone call from the customer's home branch manager.
(D) They must be processed without any authentication at all to ensure the fastest possible transaction speed.

Ans :

(A) They must be securely validated through a mandatory two-factor authentication (2FA) process.

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Ans :

(D) To enable small value transactions via an 'On-device' wallet within the existing UPI application. To manage the high volume of low-value UPI transactions and reduce the load on core banking systems, the RBI proposed a simpler process flow. This involves enabling an 'On-device' wallet within the UPI application. Small value transactions could then be processed from this wallet, conserving bank system resources while maintaining a seamless transaction experience for the user.

Oct/Nov 2010

44. Fintech players like Paytm and PhonePe have built dominant market shares in UPI. Why are these UPI payments generally not profitable for them?

(A) The transaction failure rate is extremely high for these players, resulting in the payment of large penalties.

(B) UPI payments are free for users and merchants, lacking the Merchant Discount Rate (MDR) earned on cards.

(C) The initial cost of developing and the ongoing expense of maintaining the UPI app is prohibitively high.

(D) RBI mandates that all profits generated from UPI services must be donated to designated public charities.

Ans :

(B) UPI payments are free for users and merchants, lacking the Merchant Discount Rate (MDR) earned on cards.

The business model for UPI payments differs significantly from card payments. While banks and payment companies earn a Merchant Discount Rate (MDR) on debit and credit card transactions, UPI transactions are free for both customers and merchants. This lack of a direct revenue stream makes the core UPI payment service unprofitable for the issuing and acquiring players.

May/June 2018

45. Which of the following is listed as a benefit of mobile banking for banks?

(A) It significantly increases the daily footfall in branches for customers performing routine transactions.

(B) It is a consistently more expensive service delivery solution compared to operating physical ATMs.

(C) It allows branch staff to focus more on customer service and relationship management activities.

(D) It is a tool that primarily attracts and retains senior citizen clients who are not tech-savvy.

Ans :

(C) It allows branch staff to focus more on customer service and relationship management activities.

By automating routine transactions like balance enquiries and fund transfers through the mobile channel, banks can reduce the operational load on their branch staff. This frees up valuable time for employees to focus on more value-added activities, such as effective relationship management, addressing complex customer needs, and promoting other banking products, thereby enhancing overall service quality.

Oct/Nov 2013

46. As per RBI guidelines, which types of banks are permitted to provide mobile banking services in India?

(A) Only foreign banks that have established their corporate headquarters within the territory of India.

(B) Any registered business entity, including those that do not possess a formal banking license from the RBI.

(C) Only public sector banks and their sponsored regional rural banks located in specific districts.

(D) Only licensed banks with a physical presence in India that have fully implemented core banking solutions.

Ans :

(D) Only licensed banks with a physical presence in India that have fully implemented core banking solutions.

The RBI has set specific prerequisites for offering mobile banking to ensure operational stability and regulatory oversight. To be eligible, a bank must have a physical presence in the country and must have implemented a Core Banking Solution (CBS). This ensures that the bank has the necessary infrastructure and integrated systems to support mobile banking services reliably and securely.

NODIA

Ans :

(B) To use the Aadhaar number as a financial address for easy fund transfers.
ABRS simplifies the IMPS payment process by allowing the remitter to use the beneficiary's Aadhaar number as a proxy for their bank account details. The Aadhaar number acts as a unique financial address, which is linked to the beneficiary's bank account at the back end. This is particularly useful for disbursing government subsidies like EBT/DBT and expanding financial inclusion.

May/June 2006

55. Which unique feature of the Unified Payments Interface (UPI) empowers the recipient of funds?
(A) The ability to block the sender's account after receiving money.
(B) The requirement for the sender to physically visit the recipient's bank.
(C) The automatic conversion of funds into a foreign currency.
(D) The ability to initiate a payment request (pull transaction) from a smartphone.

Ans :

(D) The ability to initiate a payment request (pull transaction) from a smartphone.
Unlike traditional fund transfer systems that are only 'push' based (sender-initiated), UPI is unique because it also allows for 'pull' transactions. This empowers the recipient (e.g., a merchant or a peer) to initiate a request for payment from the sender. The sender then simply needs to authenticate this request on their own device to complete the transaction.

Oct/Nov 2016

56. Which of the following is a key security benefit of using a Virtual Payment Address (VPA) in UPI transactions?
(A) It eliminates the need to share sensitive details like account number and IFSC code.
(B) It encrypts the entire mobile device, protecting all data stored on the phone.
(C) It allows financial transactions to be completed without an active internet connection.
(D) It automatically reports every transaction in real-time to the income tax department.

Ans :

(A) It eliminates the need to share sensitive details like account number and IFSC code.
The Virtual Payment Address (VPA) is a major security and convenience feature of UPI. It acts as an abstract identifier for a bank account. By sharing only the VPA, a user can send or receive money without exposing confidential information such as their bank account number, IFSC code, or mobile number to the other party, thereby enhancing transaction privacy and security.

May/June 2023

57. Match List-I (UPI Participant) with List-II (Role).

	List I		List II
P.	Payer PSP	1.	Customer's bank that is debited
Q.	Payee PSP	2.	Entity providing the UPI app to the recipient
R.	Remitter Bank	3.	The central infrastructure connecting all participants
S.	NPCI	4.	Entity providing the UPI app to the sender

(A) P-1, Q-2, R-4, S-3
(B) P-4, Q-1, R-2, S-3
(C) P-4, Q-2, R-1, S-3
(D) P-2, Q-4, R-3, S-1

Ans :

(C) (A) P-4, Q-2, R-1, S-3
In the UPI ecosystem, the Payer PSP provides the app to the sender (P-4). The Payee PSP provides the app to the recipient (Q-2). The Remitter Bank is the sender's account-holding bank which gets debited (R-1). NPCI operates the central switch that connects all participants and routes the transactions (S-3), ensuring interoperability.

Oct/Nov 2009

58. During the UPI registration process (Stage 3: Generate UPI-PIN), what information is the customer required to enter to set their PIN for the first time?
(A) The last 6 digits of their Debit card, its expiry date, and the OTP received.
(B) Their full bank account number and the name of their home branch.

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device (POD). This enables contactless, offline, and proximity-based communication to complete a transaction securely.

Oct/Nov 2014

68. To ensure customers are promptly informed of electronic transactions, what must banks mandatorily ask customers to register for?
(A) The bank's monthly promotional newsletter.
(B) An annual in-person security review meeting.
(C) A social media account to follow the bank's page.
(D) SMS alerts for electronic banking transactions.

Ans :

(D) SMS alerts for electronic banking transactions.
For customer protection and timely notification, banks are required to have their customers mandatorily register for SMS alerts for electronic banking transactions. While email alerts are also encouraged where available, SMS alerts are mandatory. This ensures that the customer receives immediate information about any transaction happening in their account, which is crucial for the early detection of unauthorized activity.

May/June 2016

69. A bank's policy states that it will not offer electronic transaction facilities (other than ATM cash withdrawals) to a certain group of customers. This restriction applies to customers who do not:
(A) Maintain a certain minimum average balance in their account.
(B) Possess a credit card issued by the same bank.
(C) Provide their mobile numbers to the bank for registration.
(D) Reside within the city limits where the branch is located.

Ans :

(C) Provide their mobile numbers to the bank for registration.
Given the critical role of mobile numbers in sending mandatory SMS alerts for transaction verification and fraud prevention, regulatory guidelines allow banks to restrict services. Banks may choose not to offer electronic transaction facilities, with the exception of ATM cash withdrawals, to customers who have not provided a mobile number for registration and communication.

Oct/Nov 2006

70. Under what circumstance is a customer entitled to Zero Liability for an unauthorised electronic transaction?
(A) When the loss is due to the customer's negligence, but they report it within 24 hours of the transaction.
(B) When there is a third-party breach and the customer reports it within three working days of receiving communication.
(C) In all cases of unauthorised transactions, as long as the incident is reported to the bank at any time.
(D) Only if the total transaction amount is less than the regulatory prescribed limit of ₹1,000.

Ans :

(B) When there is a third-party breach and the customer reports it within three working days of receiving communication.
A customer has zero liability in two specific scenarios. First, if the unauthorized transaction is due to the bank's own fault. Second, if the fault lies with a third party (and not the customer or the bank) and the customer reports the transaction to the bank within three working days of receiving the alert.

May/June 2021

71. In a case where the responsibility for an unauthorised transaction lies neither with the bank nor the customer, but with a third party, and the customer reports it between four to seven working days, what is the customer's maximum liability for a BSBD Account?
(A) ₹10,000
(B) ₹25,000
(C) The entire transaction value
(D) ₹5,000

Ans :

(D) ₹5,000
The customer's liability is limited in cases of a third-party breach reported with a delay of 4-7 working days. The liability is capped at the transaction value or a specified amount, whichever is lower. For Basic Savings Bank Deposit (BSBD) accounts, as well as other regular Savings Bank accounts and Pre-paid Payment

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mobile phones, thereby promoting financial inclusion through a simple, accessible channel.

May/June 2008

63. What is the current upper limit per transaction for the 99# USSD-based mobile banking service?
(A) ₹5,000
(B) ₹1,000
(C) ₹2,000
(D) ₹10,000

Ans :

(A) ₹5,000
To manage the risks associated with transactions on the USSD platform, which may have different security protocols compared to app-based banking, a transaction limit has been set. At present, the upper limit for a single financial transaction conducted through the 99# service is capped at ₹5,000, making it suitable for smaller retail payments and transfers.

Oct/Nov 2011

64. Which of the following is NOT a service available under the 99# platform?
(A) Sending Money using UPI ID
(B) Applying for a personal loan
(C) Checking Account Balance
(D) Changing UPI PIN

Ans :

(B) Applying for a personal loan
The 99# service provides a range of essential financial and non-financial services like sending money, checking balances, and managing UPI PINs. However, it is designed for basic, transactional banking. Complex services like applying for a personal loan, which require documentation and detailed credit assessment, are not offered through this simple USSD-based menu-driven platform.

May/June 2017

65. UPI 123PAY was launched to facilitate UPI transactions for which specific user group?
(A) High Net Worth Individuals
(B) Feature phone users
(C) Corporate clients
(D) Foreign tourists

Ans :

(B) Feature phone users
While UPI's growth has been driven by smartphone users, a large segment of the population still uses basic feature phones without internet access. UPI 123PAY was developed and launched by NPCI and RBI specifically to bridge this gap. It provides a mechanism for feature phone users to access the UPI payment system and perform transactions securely.

Oct/Nov 2023

66. A customer using UPI 123PAY wants to make a payment at a merchant store using the missed call approach. What is the first step the merchant must take?
(A) The merchant must create a token with the customer's mobile number and bill amount.
(B) The merchant must ask the customer for their secret UPI PIN.
(C) The merchant must send a verification SMS to the customer's mobile number.
(D) The merchant must connect their Point of Sale device to the internet.

Ans :

(A) The merchant must create a token with the customer's mobile number and bill amount.
In the missed call-based payment flow of UPI 123PAY, the process is initiated at the merchant's end. The merchant uses their application to generate a unique token that links the specific transaction amount to the customer's mobile number. This tokenization is the crucial first step before the customer gives a missed call to authenticate the payment.

May/June 2005

67. Which of the four technology alternatives of UPI 123PAY uses sound waves to enable contactless and offline data communication between devices?
(A) UPI payment through a pre-defined IVR number
(B) Payment through the Missed Call approach
(C) Proximity sound-based technology
(D) Feature phone app implemented by the OEM

Ans :

(C) Proximity sound-based technology
The proximity sound-based payment solution is one of the four key technologies under UPI 123PAY. This innovative method uses sound waves to transmit payment data between the customer's feature phone and the merchant's

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To ensure the security of customer accounts, all mobile banking transactions that result in a debit must be protected by two-factor authentication (2FA). This means the transaction must be validated using two different types of credentials. One of these factors must be the customer's MPIN (Mobile Banking Personal Identification Number) or a security standard of an even higher level.

May/June 2015

51. What is the primary reason for the development of the Immediate Payment Service (IMPS) by NPCI?

(A) NEFT transactions were real-time and available 24x7, but were too expensive for small transfers.
(B) The RTGS system was not available for any type of interbank fund transfers at the time of development.
(C) NEFT transactions were processed in batches, were not real-time, and had limited operating hours.
(D) The cheque truncation system was failing and a digital alternative was urgently needed for all payments.

Ans :

(C) NEFT transactions were processed in batches, were not real-time, and had limited operating hours.
IMPS was launched to address the limitations of the existing electronic fund transfer systems like NEFT. At the time, NEFT transactions were settled in batches, meaning they were not instantaneous, and the service was available only during the working hours of the RTGS system. IMPS was created to provide a 24x7, real-time, interbank fund transfer service.

Oct/Nov 2007

52. Which of the following is NOT an objective of the Immediate Payment Service (IMPS)?

(A) To enable bank customers to use mobile instruments for remittance.
(B) To serve the goal of RBI in the digitisation of retail payments.
(C) To make payments simpler using just the mobile number of the beneficiary.
(D) To replace the SWIFT system for all international fund transfers.

Ans :

(D) To replace the SWIFT system for all international fund transfers.
IMPS was designed as a domestic payment system with the objectives of promoting mobile-based remittances, simplifying payments using mobile numbers, and advancing the digitization of retail payments within India. It is not intended for international fund transfers, which are typically handled through platforms like the SWIFT network. Mobile banking services are restricted to domestic transactions.

May/June 2019

53. A remitter wants to send funds via IMPS to a beneficiary whose mobile number is not registered for mobile banking. Which method can be used?

(A) Using the beneficiary's Aadhaar Number only.
(B) Using the beneficiary's MMID and mobile number.
(C) Using the beneficiary's account number and IFSC code.
(D) This transaction is not possible through IMPS.

Ans :

(C) Using the beneficiary's account number and IFSC code.
IMPS offers multiple modes for transfers to cater to different scenarios. If the beneficiary is not registered for mobile banking (and thus does not have an MMID), the remitter can still initiate an IMPS transaction. This is done by using the traditional details of the beneficiary's bank account number along with the corresponding Indian Financial System Code (IFSC).

Oct/Nov 2022

54. What is the primary purpose of the Aadhaar Based Remittance Service (ABRS) within the IMPS framework?

(A) To allow remittances only between two Aadhaar-linked mobile numbers.
(B) To use the Aadhaar number as a financial address for easy fund transfers.
(C) To restrict IMPS transactions only to government employees with Aadhaar.
(D) To enable cross-border remittances using the Aadhaar number as an ID.

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Instruments, this maximum liability is fixed at ₹5,000.

Oct/Nov 2019

72. Consider the following statements regarding customer liability in unauthorised electronic transactions:

1. If loss is due to customer negligence, the customer bears the entire loss until the transaction is reported.
2. If a third-party breach is reported after 10 working days, the customer's liability is always zero.

Which of the statements is/are correct?

(A) Only 1
(B) Only 2
(C) Both 1 and 2
(D) Neither 1 nor 2

Ans :

(A) Only 1
Statement 1 is correct. In cases of customer negligence, such as sharing credentials, the customer is liable for all losses incurred up to the point they report the unauthorized transaction to the bank. Statement 2 is incorrect. If reporting is delayed beyond seven working days, the liability is determined by the bank's Board-approved policy, not automatically zero.

May/June 2012

73. After a customer notifies the bank of an unauthorised electronic transaction, what is the timeline for the bank to credit a 'shadow reversal' amount to the customer's account?

(A) Within 24 hours
(B) Within 3 working days
(C) Within 10 working days
(D) Within 30 working days

Ans :

(C) Within 10 working days
To provide quick relief to the customer, the guidelines mandate a 'shadow reversal' or provisional credit. Upon being notified by the customer, the bank must credit the amount of the unauthorised transaction to the customer's account within 10 working days. This must be done without waiting for the final settlement of any insurance claim or completion of the investigation.

Oct/Nov 2024

74. In the case of an unauthorised electronic banking transaction, on whom does the burden of proving customer liability lie?

(A) On the bank
(B) On the customer
(C) On the Reserve Bank of India
(D) On the third-party system where the breach occurred

Ans :

(A) On the bank
The customer protection framework places the onus of proof squarely on the financial institution. In any dispute arising from an unauthorised electronic transaction, the burden of proving that the customer was negligent or otherwise liable for the loss lies with the bank. The customer is presumed not liable unless the bank can provide sufficient evidence to the contrary.

May/June 2009

75. A bank's Board-approved policy for customer protection in electronic transactions must be:

(A) Confidential and accessible only to the bank's senior management and legal team.
(B) Flexible and applied differently based on the customer's overall relationship value with the bank.
(C) Revised only once every ten years to ensure consistency and stability in its application.
(D) Transparent, non-discriminatory, and publicly displayed on the bank's website.

Ans :

(D) Transparent, non-discriminatory, and publicly displayed on the bank's website.
To ensure fairness and clarity, the policy must be transparent and non-discriminatory, applying the same rules to all customers in similar situations. It must clearly stipulate compensation mechanisms and timelines. Furthermore, this policy must be made public, typically by displaying it on the bank's website and providing it to customers, to ensure widespread awareness of rights and responsibilities.

Oct/Nov 2015

76. Refer to the following excerpt: "For failed ATM transaction, banks have been mandated to resolve customer complaints by re-crediting the customer's account within a maximum T+5 days from the date of complaint. Effective from October

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effectiveness of its delivery paradigm. While aspects like cost and marketing play a role, the core factor for success is how products and services are actually delivered, as this directly shapes the customer experience, satisfaction, and loyalty.

Oct/Nov 2023

5. Which of the following statements correctly differentiates electronic channels from physical channels in retail banking?
(A) Electronic channels like ATMs and Net Banking require significant human intervention to function.
(B) Physical channels like bank branches are fully automated and have no human intervention.
(C) Electronic channels deliver services via machines or software without human intervention.
(D) Physical and electronic channels are functionally identical in their service delivery processes.

Ans :

(C) Electronic channels deliver services via machines or software without human intervention.
A key distinction between channel types is the level of human involvement. Electronic channels such as ATM, Net Banking, and Mobile Banking are automated, with service requests fulfilled by machines or software. In contrast, physical channels like branches and direct marketing rely heavily on individuals for service delivery and customer interaction.

May/June 2008

6. According to the delivery models discussed, what are the three important types of human interventions in physical channels?
(A) Branch Managers, Tellers, and Security Guards.
(B) Internal Customer, Specialised Marketing Personnel, and Direct Selling Associates (DSAs).
(C) IT Support Staff, Auditors, and Compliance Officers.
(D) Operations Team, Credit Analysts, and Recovery Agents.

Ans :

(B) Internal Customer, Specialised Marketing Personnel, and Direct Selling Associates (DSAs).
In the context of service delivery through physical channels, three key human roles are identified. These are the internal customers, who are the staff at the branch; specialised marketing personnel, who are dedicated to marketing initiatives; and Direct Selling Associates (DSAs), who are external agents sourcing business for the bank.

Oct/Nov 2019

7. Based on a common service delivery model diagram, service delivery is broadly categorized into which two main segments?
(A) Online and Offline.
(B) Sales and Service.
(C) Internal and External.
(D) Branch and Beyond Branch.

Ans :

(D) Branch and Beyond Branch.
Service delivery models often bifurcate activities into two primary areas. The 'Branch' segment includes staff and managers representing activities centered at the branch. The 'Beyond Branch' segment consists of external agents like Direct Selling Associates, representing outreach and sourcing activities that occur outside the physical branch premises.

May/June 2010

8. In retail banking delivery, who is considered responsible for the end-to-end service delivery process at the branch level?
(A) The staff members of the branch.
(B) Only the Branch Manager.
(C) The Dedicated Marketing Managers.
(D) The Direct Selling Associates (DSAs).

Ans :

(A) The staff members of the branch.
The staff members at a branch play a crucial role as they are responsible for the entire, end-to-end service delivery process. Any deficiency in their delivery can directly lead to customer dissatisfaction. They are the primary interface for customers and are central to the service experience within the physical branch environment.

Oct/Nov 2016

9. Why is service delivery in Public Sector Banks (PSBs) often described as more personalised and caring, even without a strategic focus on retail banking?

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beyond the T+5 deadline. The compensation is ₹100 per day of delay. Therefore, the total compensation payable is 2 x ₹100 = ₹200.

Oct/Nov 2017

80. Ms. Priya shares her internet banking password with her colleague to help her pay a bill. The colleague makes an unauthorized transfer of ₹30,000 from Ms. Priya's account. Ms. Priya discovers this two days later and immediately reports it to the bank. What is Ms. Priya's liability for this loss?

(A) Zero, as she reported the transaction to the bank as soon as she noticed it.
(B) The entire loss of ₹30,000 that occurred before she reported the incident.
(C) Limited to ₹5,000 as per the RBI rules for reporting within three working days.
(D) 50% of the loss amount, i.e., ₹15,000, as the liability is shared in such cases.

Ans :

(B) The entire loss of ₹30,000 that occurred before she reported the incident.
This situation falls under loss due to customer negligence, as Ms. Priya shared her confidential payment credentials. In such cases, the customer is liable for the entire loss incurred up to the point they report the unauthorized transaction to the bank. Since the loss of ₹30,000 occurred before she reported it, she must bear the entire amount.

May/June 2010

81. A major data breach occurs at a third-party e-commerce website, and fraudulent transactions are initiated. A debit of ₹9,000 occurs from Mr. Singh's Current Account (for his MSME business). He notices the transaction alert and reports it to his bank 5 working days after receiving the communication. What is his maximum liability?

(A) Zero
(B) ₹9,000
(C) ₹5,000
(D) ₹10,000

Ans :

(B) ₹9,000
This is a third-party breach reported between 4-7 working days. For a Current Account, the maximum liability is capped at ₹10,000 or the transaction value, whichever is lower. Since the transaction value (₹9,000) is lower than the cap (₹10,000), Mr. Singh's maximum liability is limited to the actual transaction amount of ₹9,000.

Oct/Nov 2008

82. A bank is planning its channel strategy for a newly opened branch in a remote village with low internet penetration and a population largely comprising elderly, non-tech-savvy farmers. Which channel mix would be most appropriate and effective for achieving financial inclusion in this area?

(A) A strong branch presence combined with a network of Business Correspondents (BCs) for doorstep banking.
(B) Focus exclusively on a high-tech mobile banking app and internet banking services.
(C) Setting up only Off-site ATMs and Cash Recycling Machines in the village market.
(D) Promoting only the 99# USSD service and closing the physical branch to save costs.

Ans :

(A) A strong branch presence combined with a network of Business Correspondents (BCs) for doorstep banking.
For a conservative, non-tech-savvy, rural customer base, remote electronic channels alone are ineffective. The most appropriate strategy combines the trust and tangibility of a physical branch with the reach and convenience of Business Correspondents. BCs can provide essential doorstep banking services, bridging the last-mile gap and effectively promoting financial inclusion in such an environment.

May/June 2007

83. Ravi initiates a UPI transfer of ₹15,000 from his bank (Bank A) to his friend Suresh's account (Bank B) on Monday. Ravi's account is debited, but Suresh does not receive the credit. Auto-reversal does not happen by Tuesday (T+1). As per TAT guidelines, what is the compensation Bank B is liable to pay?

(A) ₹100 per day of delay directly to the beneficiary, Suresh.
(B) A flat ₹500 penalty paid directly to the Reserve Bank of India.
(C) ₹100 per day of delay to Bank A, which is then passed on to Ravi.
(D) No compensation is payable; only the reversal of the principal amount is required.

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Ans :

(C) ₹100 per day of delay to Bank A, which is then passed on to Ravi.
For a failed UPI fund transfer where the beneficiary account is not credited, the Beneficiary Bank (Bank B) is responsible for auto-reversal by T+1 day. If it fails, it is liable to pay compensation of ₹100 per day for the delay. This compensation is paid to the Remitter Bank (Bank A) which then credits it to the affected customer (Ravi).

Oct/Nov 2021

84. A customer in Chennai (a Tier-I city) goes to a large supermarket and requests to withdraw ₹2,500 in cash using his debit card at the POS terminal. What will the cashier at the POS counter inform the customer?
(A) That the transaction is approved for the full withdrawal amount of ₹2,500.
(B) That the maximum cash withdrawal allowed at any POS terminal is ₹2,000 per day.
(C) That cash withdrawal at any POS terminal has been completely discontinued by the RBI.
(D) That the maximum cash withdrawal allowed at a POS terminal in a Tier-I city is ₹1,000 per day.

Ans :

(D) That the maximum cash withdrawal allowed at a POS terminal in a Tier-I city is ₹1,000 per day.
The rules for cash withdrawal at POS vary by location. While the limit was enhanced to ₹2,000 in Tier III to VI centres, it remains unchanged for major cities. Chennai is a Tier-I city, where the per-day limit for cash withdrawal at a POS terminal is still capped at ₹1,000. Therefore, the customer's request for ₹2,500 would be denied.

May/June 2018

85. Anjali wants to use the BHIM app to pay her vendor a single payment of ₹35,000. She has sufficient balance in her linked bank account. When she tries to make the payment, the transaction fails. What is the most likely reason for this failure?
(A) BHIM can only be used for peer-to-peer payments below ₹10,000.
(B) The per-day limit for the BHIM app is ₹25,000 per account.
(C) The per-transaction limit for the BHIM app is ₹20,000.
(D) BHIM does not allow payments to vendors, only to individual users.

Ans :

(C) The per-transaction limit for the BHIM app is ₹20,000.
The BHIM application has defined transaction limits. While the daily limit is ₹40,000 per account, there is a cap on the amount for a single transaction. The maximum amount that can be sent in one transaction via BHIM is ₹20,000. Anjali's attempt to send ₹35,000 in a single payment exceeds this limit, causing the transaction to fail.

Oct/Nov 2013

86. Which of the five specific initiatives of RBI's Payment Vision 2025 focuses on providing a framework for harnessing new technologies and creating a favorable environment for innovation?
(A) Integrity
(B) Innovation
(C) Inclusion
(D) Institutionalisation

Ans :

(B) Innovation
The RBI's Payment Vision 2025 is built on five pillars. The 'Innovation' pillar is specifically aimed at fostering a culture of creativity and technological advancement in the payment ecosystem. This includes initiatives to support the adoption of emerging technologies, encourage new use-cases for digital payments, and create a regulatory environment that is conducive to innovative solutions.

May/June 2024

87. Assertion (A): The burden of proving customer liability in case of unauthorised electronic banking transactions lies with the bank.
Reason (R): This approach is designed to protect the customer, who may not have the technical means to prove their non-involvement, and to ensure banks implement robust security systems.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

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Ans :

(A) Both A and R are true and R is the correct explanation of A.
Assertion (A) is a factual statement from the RBI's customer protection guidelines. Reason (R) correctly explains the rationale behind this rule. Placing the burden of proof on the bank protects consumers and incentivizes banks to invest in strong security measures and fair investigation processes, making R the correct explanation for A.

Oct/Nov 2005

88. Identify the incorrect statement regarding the features of the BHIM application.
(A) The per-transaction limit is ₹40,000 and the per-day limit is ₹1,00,000.
(B) A user can send money using a Virtual Payment Address (VPA), Account Number & IFSC, or Aadhaar Number.
(C) The application is currently available in multiple Indian languages to promote accessibility.
(D) A user can initiate a collect request to ask for money from another UPI user.

Ans :

(A) The per-transaction limit is ₹40,000 and the per-day limit is ₹1,00,000.
This statement incorrectly states the transaction limits for the BHIM app. The correct limits are up to ₹20,000 per transaction and a maximum of ₹40,000 per day for one bank account linked to the app. The other statements regarding payment identifiers, language availability, and the collect request feature are all correct descriptions of BHIM's functionality.

May/June 2011

89. Arrange the following steps for setting up the BHIM app for the first time in the correct chronological order:
1. Set your UPI PIN by providing the last 6 digits of the debit card and expiry date.
2. Select the SIM card which has the mobile number registered with your bank.
3. Download and Install the BHIM app.
4. Link your bank accounts using the bank account option.
5. Set the application pass code required to enter the app.

(A) 3, 5, 2, 4, 1
(B) 3, 2, 5, 4, 1
(C) 1, 2, 3, 4, 5
(D) 3, 4, 2, 5, 1

Ans :

(B) 3, 2, 5, 4, 1
The correct sequence starts with downloading the app (3). Then, the app verifies the registered mobile number by asking to select the SIM (2). Next, the user sets a local application pass code (5). After this, the user links their bank account (4). Finally, the user authenticates and sets the UPI PIN for transactions (1).

Oct/Nov 2020

90. Consider the following security measures for ATMs:
1. Disabling the cash retraction facility to prevent certain types of fraud.
2. Using Dip-card readers that do not swallow the card.
3. Increasing the per-screen transaction time to give customers more time.
4. Automatically logging out a customer after a single invalid PIN entry.

Which of the above are correct security measures mentioned in the text?
(A) 1, 2, and 4
(B) 1, 2, and 3
(C) 2, 3, and 4
(D) All of the above

Ans :

(A) 1, 2, and 4
The text lists several security measures. Disabling cash retraction, using dip-card readers, and logging out after even one invalid PIN are all mentioned as measures to enhance security. However, the text mentions a 'reduction of per screen transaction time' to minimize exposure, not an increase. Therefore, statement 3 is incorrect.

May/June 2015

91. Which of the following statements about delivery channels is correct?
Statement I: Direct channels like branches are best suited for young, tech-savvy customers.
Statement II: Remote channels like mobile banking give customers the freedom to avail services at their convenience.
(A) Only Statement I is correct.
(B) Only Statement II is correct.

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(C) Both Statement I and Statement II are correct.
(D) Neither Statement I nor Statement II is correct.

Ans :

(B) Only Statement II is correct.
Statement I is incorrect; direct channels are better suited for conservative customers who prefer human interaction. Statement II is correct; the primary advantage of remote channels like mobile and internet banking is the convenience and freedom they offer customers to transact anytime and anywhere, outside the constraints of branch location and timings.

Oct/Nov 2007

92. Identify the incorrect pair from the following options related to ATM transaction limits.
(A) Own Bank ATMs: Minimum 5 free transactions per month
(B) Charge beyond free limit: ₹25 per transaction
(C) Other Bank ATMs (Metro): Minimum 3 free transactions per month
(D) Other Bank ATMs (Non-Metro): 5 free transactions per month

Ans :

(B) Charge beyond free limit: ₹25 per transaction
The text clearly outlines the free transaction limits at various ATMs, and pairs A, B, and C correctly reflect these guidelines. However, pair D is incorrect. The charge for transactions conducted beyond the free limit was revised to ₹21 per transaction effective from January 1, 2022, not ₹25.

May/June 2019

93. Which of the following is NOT a feature or benefit of UPI?
(A) It allows for scheduling of push and pull transactions for various purposes.
(B) It ensures 1-click 2-factor authentication.
(C) It relies on sharing the full bank account number and IFSC code for every transaction to ensure security.
(D) It permits immediate funds transfer 24x7 without any cut-off timings.

Ans :

(C) It relies on sharing the full bank account number and IFSC code for every transaction to ensure security.
A key feature and benefit of UPI is the use of a Virtual Payment Address (VPA), which eliminates the need to share sensitive details like the bank account number and IFSC code for transactions. This enhances privacy and security. The other options correctly describe features of UPI, such as scheduling, 2-factor authentication, and 24x7 availability.

Oct/Nov 2022

94. Match List-I (Technology/Service) with List-II (Description).

	List I		**List II**
P.	UPI 123PAY (IVR)	1.	Uses sound waves for contactless payment
Q.	UPI 123PAY (Missed Call)	2.	Call a pre-defined number to initiate transaction
R.	UPI 123PAY (Sound Based)	3.	Works on USSD channel for basic phones
S.	99 Service	4.	Customer receives a call back to enter PIN

(A) P-2, Q-4, R-1, S-3
(B) P-1, Q-3, R-2, S-4
(C) P-2, Q-1, R-4, S-3
(D) P-3, Q-4, R-1, S-2

Ans :

(A) P-2, Q-4, R-1, S-3
P-2: The IVR method involves calling a number. Q-4: The missed call method involves the customer getting a call back for authentication. R-1: The proximity payment method uses sound wave technology. S-3: The 99# service is the original USSD-based platform for feature phones, distinct from the newer UPI 123PAY initiatives.

May/June 2006

95. Consider the following statements about Cash Recycling Machines (CRMs):
1. They perform a dual function of accepting deposits and dispensing cash.
2. They help in reducing the bank's cash handling costs.
3. They can detect fraudulent notes during both cash deposit and withdrawal.

Which of the above statements is/are correct?
(A) 1 only
(B) 1 and 2 only
(C) 2 and 3 only

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(D) 1, 2, and 3

Ans :

(D) 1, 2, and 3
All three statements accurately describe the value proposition of Cash Recycling Machines. They have a dual function of accepting deposits and dispensing cash (1). This recycling process reduces cash loading frequency and idle cash, thus lowering handling costs (2). They are also equipped with technology for consistent counting and detection of fraudulent notes during both deposit and withdrawal operations (3).

Oct/Nov 2016

96. RBI's guidelines on 'Risks and Controls in Computers and Telecommunications' are equally applicable to which of the following delivery channels?
(A) Branch Banking
(B) Internet Banking
(C) Business Correspondent operations
(D) Point of Sale terminals

Ans :

(B) Internet Banking
The text explicitly states that the comprehensive guidelines issued by the RBI on 'Risks and Controls in Computers and Telecommunications' are also equally applicable to Internet Banking. This is because internet banking is an extension of computer-based banking and is exposed to similar technological, operational, and security risks that the guidelines seek to address and mitigate.

May/June 2023

97. Which of the following is NOT a benefit of a good branch layout?
(A) Promotes efficiency and smooth flow of services.
(B) Mandates the use of the Single Window Concept in all rural branches.
(C) Increases internal communication effectiveness and staff coordination.
(D) Reduces cost through planned maximisation of efficiencies.

Ans :

(B) Mandates the use of the Single Window Concept in all rural branches.
A good branch layout provides benefits such as efficiency, better communication, and cost optimization. However, it does not mandate any specific service delivery model for a particular location. In fact, the text notes that while the Single Window Concept is prevalent in urban centers, the traditional branch layout often continues in rural and semi-urban branches.

Oct/Nov 2009

98. In the context of IMPS, what is a "MMID"?
(A) A 7-digit code used to identify a bank account for remittances.
(B) A 4-digit PIN used for authenticating all mobile transactions.
(C) An 11-digit alphanumeric code for identifying a specific bank branch.
(D) A unique ID assigned to merchants for accepting IMPS payments.

Ans :

(A) A 7-digit code used to identify a bank account for remittances.
MMID stands for Mobile Money Identifier. It is a unique 7-digit code issued by a bank to a customer upon registration for mobile banking. This code, when combined with the customer's mobile number, creates a unique identifier for that specific bank account, enabling it to receive funds through the IMPS channel without revealing the account number.

May/June 2014

99. Which of the following retail banking delivery channels is described as a "universal remote channel" attracting both "bottom of pyramid" and "high end" customers?
(A) Internet Banking
(B) Branch Banking
(C) Mobile Banking
(D) Automated Teller Machine (ATM)

Ans :

(C) Mobile Banking
The text contrasts internet banking, which is more attractive to tech-savvy upper-middle-end customers, with mobile banking. Due to the strong and widespread penetration of mobile services across all geographic and demographic segments, including rural areas, mobile banking is positioned as a universal remote channel capable of attracting customers from all strata of society, from the bottom of the pyramid to high-end users.

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15, 2019, banks have to pay compensation of ₹100 per day for delays in re-crediting the amount beyond T+5 days... If the complaint is not lodged within 30 days of transaction, the customer is not entitled for any compensation for delay..."
Based on this, what happens if a customer lodges a complaint for a failed ATM transaction on the 35th day after the transaction?
(A) The bank must re-credit the amount within T+5 days and pay compensation for any delay.
(B) The customer is not entitled to any compensation for delay in resolution.
(C) The compensation amount is increased to ₹200 per day due to the late reporting.
(D) The bank is not obligated to even re-credit the principal amount of the transaction.

Ans :

(B) The customer is not entitled to any compensation for delay in resolution.
The excerpt clearly states a condition for entitlement to compensation. While the bank is still obligated to investigate and reverse the erroneous debit, the customer's right to claim compensation for delay is forfeited if the complaint is not lodged within 30 days of the transaction date. Therefore, a complaint on the 35th day would not be eligible for penal compensation.

May/June 2025

77. Refer to the table on "Harmonisation of Turn Around Time (TAT) and customer compensation". For a 'Card to card transfer' where the card account is debited but the beneficiary card account is not credited, what is the prescribed framework?
(A) Auto-reversal within T+5 days; Compensation of ₹100/day beyond T+5.
(B) Auto-reversal within T+3 days; No compensation is payable for any delay.
(C) Transaction to be reversed latest within T+1 day; Compensation of ₹100/day beyond T+1.
(D) Transaction to be reversed within T+1 day; Compensation of ₹50/day beyond T+1.

Ans :

(C) Transaction to be reversed latest within T+1 day; Compensation of ₹100/day beyond T+1.
The TAT framework specifies different timelines for various transaction types. For a failed card-to-card transfer, the timeline is much shorter than for an ATM failure. The transaction must be reversed by the responsible entity at the latest within T+1 day. If this reversal is delayed, a compensation of ₹100 per day is payable for the delay beyond T+1.

Oct/Nov 2012

78. Refer to the table on "Harmonisation of Turn Around Time (TAT) and customer compensation". In which of the following scenarios is the timeline for auto-reversal set at 'T+5 days'?
(A) IMPS - Account debited but beneficiary account not credited.
(B) APBS - Delay in crediting beneficiary's account from date of settlement.
(C) Card to card transfer - Card account debited but beneficiary not credited.
(D) UPI - Account debited but transaction confirmation not received at merchant location.

Ans :

(D) UPI - Account debited but transaction confirmation not received at merchant location.
According to the provided TAT table, different failures have different reversal timelines. An IMPS or APBS failure has a T+1 day timeline. A card-to-card transfer also has a T+1 day timeline. However, for a UPI payment to a merchant where the customer's account is debited but the confirmation is not received, the auto-reversal timeline is T+5 days.

May/June 2013

79. Mr. Kumar attempts to withdraw ₹8,000 from an ATM on June 1st. His savings account is debited, but the cash is not dispensed. He files a complaint with his bank on June 2nd. The bank reverses the amount and credits his account on June 9th. What is the total compensation amount the bank is liable to pay Mr. Kumar?
(A) ₹200
(B) ₹0
(C) ₹300
(D) ₹500

Ans :

(A) ₹200
The transaction date (T) is June 1st. The auto-reversal deadline is T+5 days, which is June 6th. The bank credited the amount on June 9th. The delay is for June 7th and June 8th, which is 2 days

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CHAPTER 19
Delivery Models

Oct/Nov 2012

1. In the context of retail banking, the effectiveness of physical delivery channels is primarily determined by which factor?
   (A) The technological sophistication of the branch infrastructure.
   (B) The persons who are delivering the services.
   (C) The geographical location of the bank's branches.
   (D) The range of products offered at the physical location.

Ans :

(B) The persons who are delivering the services.
Delivery effectiveness in physical channels is determined more by the individuals delivering the services than by other factors. While technology and location are important, the human element is crucial for customer interaction, relationship building, and ensuring satisfaction in channels like branches, which directly influences the success of the retail banking operation.

May/June 2021

2. What do today's hyper-connected consumers primarily demand from financial institutions regarding service delivery?
   (A) Financial services to be available and delivered seamlessly and ubiquitously.
   (B) Services delivered only through traditional branch channels for security.
   (C) A single, dedicated channel for all their financial transactions.
   (D) Limited service options to avoid complexity and confusion.

Ans :

(A) Financial services to be available and delivered seamlessly and ubiquitously.
Modern consumers demand that financial services be accessible and delivered without friction across any channel they choose. The focus is on satisfying the hyper-connected consumer by providing both service and sales through any platform, moving beyond just simple improvements in customer service to a more integrated and ubiquitous delivery approach.

Oct/Nov 2005

3. What is the likely outcome for a financial institution that fails to deliver both sales and service through the platforms of their consumers' choice?
   (A) It will experience rapid, innovation-led growth.
   (B) It will attract a niche market of traditional customers.
   (C) It is doomed to stagnant growth.
   (D) It will be forced to merge with a more technologically advanced bank.

Ans :

(C) It is doomed to stagnant growth.
A financial institution's inability to cater to consumer preferences for channel usage for both sales and service leads to a failure to meet modern expectations. This disconnect with the customer base, especially the hyper-connected segment, ultimately results in a lack of growth and business stagnation in a competitive market environment.

May/June 2014

4. The success of the customer-oriented business model of retail banking is fundamentally dependent on what?
   (A) The bank's ability to effectively minimize operational costs.
   (B) The frequency and effectiveness of its marketing campaigns.
   (C) The interest rates offered on various deposit products.
   (D) The way products and services are delivered to the customer.

Ans :

(D) The way products and services are delivered to the customer.
Retail banking is inherently a customer-oriented model. Therefore, its success hinges on the

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Oct/Nov 2025

100. Refer to the customer liability table. A customer has a credit card with a limit of ₹4 lakh. A fraudulent transaction of ₹12,000 occurs due to a third-party breach. The customer reports this to the bank 6 working days after receiving the transaction communication. What is the customer's maximum liability in this scenario?

(A) ₹5,000
(B) ₹12,000
(C) ₹25,000
(D) ₹10,000

Ans :

(D) ₹10,000

The case involves a third-party breach reported between 4-7 working days. The customer has a credit card with a limit of ₹4 lakh, which falls under the category "Credit cards with limit upto ₹5 lakh". For this category, the maximum liability is capped at ₹10,000 or the transaction value, whichever is lower. Since ₹10,000 is lower than the transaction value of ₹12,000, the customer's maximum liability is ₹10,000.

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(A) Due to highly competitive salaries and performance-based incentives for all PSB staff members.
(B) Due to strict mandatory government regulations that enforce high customer service quality standards.
(C) Due to strong customer loyalty and deep staff understanding of customer profiles.
(D) Because their business model exclusively serves the needs of high-net-worth individual clients.

Ans :

(C) Due to strong customer loyalty and deep staff understanding of customer profiles.
Service delivery in PSBs is noted to be more personalised primarily due to the strong loyalty of their customer base and the deep, often long-term, understanding that the staff has of their customers' profiles. This relationship-based dynamic, especially in semi-urban and rural areas, fosters a more caring approach to service.

May/June 2005

10. In which types of branches is the loyalty of retail customers and their valuation of relationships with banks most pronounced?
(A) Semi-urban and rural branches.
(B) Metropolitan and urban branches.
(C) Overseas branches of Indian banks.
(D) Newly opened private sector bank branches.

Ans :

(A) Semi-urban and rural branches.
The personalised and caring nature of service delivery in PSBs is more pronounced in semi-urban and rural branches. In these areas, retail customers tend to be more loyal and place a higher value on their long-standing relationships with the bank and its staff, fostering a stronger connection.

Oct/Nov 2024

11. What is the first characteristic required for efficient service delivery by branch staff?
(A) A thorough knowledge of all relevant banking regulations and compliance standards.
(B) The ability to process all types of customer transactions quickly and without errors.
(C) A primary focus on acquiring new high-value customers for the branch's portfolio.
(D) A deep understanding of the customer's profile, needs, and life stage.

Ans :

(D) A deep understanding of the customer's profile, needs, and life stage.
The foremost trait for efficient service delivery is a comprehensive understanding of the customer. This includes their financial situation, specific needs for financial products, their requirements, and their current life stage. This foundational knowledge allows staff to provide relevant and personalised service, which is a cornerstone of effective retail banking.

May/June 2017

12. Which essential trait for efficient service delivery involves offering additional, relevant products to customers based on their identified requirements?
(A) Post sales service follow up.
(B) Cross selling the right products.
(C) Customer Empathy.
(D) Understanding product features.

Ans :

(B) Cross selling the right products.
One of the key characteristics for efficient service delivery is the ability to cross-sell the right products that match a customer's specific requirements. This not only enhances the customer relationship by meeting more of their needs but also contributes significantly to the bank's business growth by deepening the wallet share per customer.

Oct/Nov 2011

13. To ensure customer satisfaction after a product has been sold, what essential action should branch staff undertake?
(A) Immediately try to sell another product.
(B) Ask the customer for referrals.
(C) Conduct a post sales service follow up.
(D) Update the customer's KYC details.

Ans :

(C) Conduct a post sales service follow up.
An essential trait for efficient service delivery is conducting a post-sales service follow-up. This proactive step helps in gauging customer satisfaction with the purchased product or service, addressing any issues that may have arisen, and reinforcing the bank's commitment to the customer, thereby strengthening the relationship and ensuring long-term loyalty.

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(D) Approving high-value corporate loans.

Ans :

(B) Gathering Market Intelligence.
A primary expectation from Dedicated Marketing Managers is to provide Market Intelligence. This involves gathering and analyzing information about the market, competitors, customer trends, and opportunities. This intelligence is crucial for formulating effective marketing strategies, identifying potential customer segments, and making informed business decisions in the retail banking space.

Oct/Nov 2018

23. The role of a Dedicated Marketing Manager includes "Potential Sourcing". What does this task involve?
(A) Identifying and tapping into new sources of funds for the bank.
(B) Sourcing raw materials for the bank's operations.
(C) Recruiting potential employees for the marketing team.
(D) Identifying potential customers and business opportunities.

Ans :

(D) Identifying potential customers and business opportunities.
"Potential Sourcing" is a key responsibility for Dedicated Marketing Managers, which involves proactively identifying new avenues for business. This includes pinpointing potential customer segments, leads, and market opportunities that the bank can target to expand its retail banking portfolio and achieve its growth objectives through strategic marketing efforts.

May/June 2007

24. A key expectation from Dedicated Marketing Managers is "Right selling to the targeted customer group". What does this imply?
(A) Ensuring products offered are suitable for the specific needs of a targeted customer group.
(B) Aggressively selling any available product to any customer simply to meet sales targets.
(C) Primarily offering the most expensive or profitable products to customers to maximize commission.
(D) Focusing all sales and marketing efforts exclusively on the bank's existing customers.

Ans :

(A) Ensuring products offered are suitable for the specific needs of a targeted customer group.
"Right selling" emphasizes the ethical and effective practice of matching products to the customer's actual needs and financial situation. For a Dedicated Marketing Manager, this means moving beyond just selling and ensuring that the offerings are genuinely appropriate for the targeted customer group, which builds trust and long-term value.

NODIA

Oct/Nov 2025

25. What is the ultimate goal of activities like product presentations and lead generation undertaken by Dedicated Marketing Managers?
(A) Building long-term brand awareness in the target market.
(B) Collecting prospective customer data for future analysis.
(C) Converting generated leads into final sales transactions.
(D) Educating potential customers on general product features.

Ans :

(C) Converting generated leads into final sales transactions.
While activities like presentations and lead generation contribute to awareness and education, their primary business objective is tangible results. For a Dedicated Marketing Manager, the key expectation is to convert these leads into actual sales and successfully close the deals, directly contributing to the bank's revenue and business volume.

May/June 2023

26. Which responsibility of a Dedicated Marketing Manager ensures that the bank delivers on what was promised during the sales process?
(A) Ensuring promises made are kept and service standards are met.
(B) The gathering and analysis of competitive Market Intelligence.
(C) The identification and development of Potential Sourcing opportunities.
(D) The successful conversion of leads into finalized Sales Conversions.

Ans :

May/June 2025

18. In the past decade, how has the approach to retail banking in public sector banks evolved?
(A) From an integrated approach to building a standalone franchise.
(B) From a standalone franchise to an integrated approach.
(C) By completely outsourcing all retail banking functions.
(D) By focusing exclusively on corporate banking.

Ans :

(A) From an integrated approach to building a standalone franchise.
The concept of people in retail banking has changed dramatically, especially in public sector banks. They have moved away from an integrated approach, where retail banking was part of the overall business model, towards building a standalone franchise. This shift involved appointing specialists specifically for retail banking marketing initiatives to create a more focused business vertical.

Oct/Nov 2009

19. How did foreign and private banks initially address the mismatch between their retail banking objectives and available human resources?
(A) By training their existing staff extensively.
(B) By reducing their retail banking objectives.
(C) By engaging external agencies for marketing and customer acquisition.
(D) By merging with public sector banks.

Ans :

(C) By engaging external agencies for marketing and customer acquisition.
Foreign and private banks faced a gap between their ambitious retail banking goals and the capabilities of their internal human resources. To bridge this, they engaged external agencies to carry out crucial functions like marketing and customer acquisition, allowing them to scale their operations quickly without having to build all capabilities in-house immediately.

May/June 2019

20. What was a common characteristic of the specialist Marketing Managers recruited by banks for their redesigned marketing approach?
(A) They were senior bankers with experience in corporate credit.
(B) They were part-time consultants from academic institutions.
(C) They were promoted from the clerical cadre based on seniority.
(D) They were typically young and energetic MBAs in Marketing.

Ans :

(D) They were typically young and energetic MBAs in Marketing.
To drive their new retail banking initiatives, banks appointed specialist Marketing Managers. These individuals were often young, energetic, and held professional qualifications like an MBA in Marketing. They were recruited from management school campuses and brought a fresh, specialized skill set to the banks' marketing efforts, often appointed in junior or middle management.

Oct/Nov 2015

21. What was the typical nature of the compensation structure for the newly appointed Dedicated Marketing Managers?
(A) It was purely a fixed salary with no performance-linked component.
(B) It was entirely variable and based solely on sales commissions.
(C) It consisted of both fixed and variable components, making it performance-oriented.
(D) It was based on the standard pay scales applicable to all bank officers.

Ans :

(C) It consisted of both fixed and variable components, making it performance-oriented.
The compensation for these specialist managers was designed to be attractive and to drive results. The structure included both a fixed salary and a variable component linked to performance. This performance-oriented pay model was intended to motivate the managers to achieve specific marketing and sales targets, aligning their goals with the bank's objectives.

May/June 2012

22. Which of the following is one of the key expectations from a Dedicated Marketing Manager?
(A) Conducting internal audits of the branch.
(B) Gathering Market Intelligence.
(C) Managing the bank's treasury operations.

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Oct/Nov 2006

31. The concept of Direct Selling Agents (DSAs) in the Indian banking sector was pioneered by which type of banks?
(A) Foreign banks.
(B) Public Sector Banks.
(C) Regional Rural Banks.
(D) Cooperative Banks.

Ans :

(A) Foreign banks.
The use of Direct Selling Agents as a delivery model was not initially a practice of domestic banks. The concept was first introduced and pioneered by foreign banks operating in India. It was later nurtured and widely adopted by the new generation private sector banks as a key strategy for business acquisition and market penetration.

May/June 2020

32. On what basis are Direct Selling Agents (DSAs) appointed by banks to source business?
(A) On a fixed monthly salary basis.
(B) On a fee basis.
(C) On a profit-sharing basis.
(D) On a voluntary, non-paid basis.

Ans :

(B) On a fee basis.
DSAs are external agencies or individuals who are not on the bank's payroll. They are appointed to source business for the bank, and their compensation is not a fixed salary but is paid on a fee basis. This fee is typically linked to the volume and value of the business they successfully generate for the bank.

Oct/Nov 2010

33. In which product categories are Direct Selling Agents (DSAs) primarily engaged in sourcing for banks?
(A) Corporate Term Loans and Working Capital.
(B) Credit Cards and Retail Loans.
(C) Agricultural Loans and Kisan Credit Cards.
(D) Government Securities and Bonds.

Ans :

(B) Credit Cards and Retail Loans.
While DSAs can be used for various products, they are primarily utilized for sourcing high-volume retail products. DSAs are mainly engaged in sourcing Credit Cards and various types of Retail Loans, such as personal loans and home loans, which are key drivers of a bank's retail asset portfolio.

May/June 2009

34. In the DSA model, who is responsible for the final scrutiny and KYC formalities before a product is offered to the customer?
(A) The banks themselves.
(B) The Direct Selling Agent (DSA).
(C) The tele-callers appointed by the DSA.
(D) An independent third-party verification agency.

Ans :

(A) The banks themselves.
Although DSAs handle the initial marketing, customer interaction, and preliminary formalities, the ultimate responsibility for due diligence rests with the bank. The scrutiny of documents and the completion of Know Your Customer (KYC) formalities are fundamentally the bank's duty before it onboards the customer and offers any financial product.

Oct/Nov 2021

35. What is described as a rampant issue and a significant risk associated with the DSA model, particularly in the credit card space?
(A) Slow processing times.
(B) High operational costs.
(C) Mis-selling and misuse of cards.
(D) Lack of product variety.

Ans :

(C) Mis-selling and misuse of cards.
A major drawback of the DSA model is the risk of mis-selling. This is especially rampant in the credit card business, where DSA employees might misrepresent product features or encourage misuse, leading customers into debt traps. This behavior creates dissatisfaction for the customer and poses a significant reputation risk for the bank.

May/June 2024

36. For new generation private sector banks with limited branch networks, what is the primary motivation for depending on DSAs?
(A) To comply with specific regulatory requirements for market penetration.
(B) To reduce the fixed costs associated with full-time employees.

NODIA

(A) Ensuring promises made are kept and service standards are met.
This expectation holds the marketing manager accountable for the integrity of the sales process. It ensures that any promises made to the customer regarding product features, benefits, or service levels are honored by the bank. This is crucial for maintaining customer trust, satisfaction, and the bank's reputation for reliable service delivery.

Oct/Nov 2014

27. To ensure the successful delivery of a product sold to a customer, with which department must a Dedicated Marketing Manager follow up?
(A) The human resources department.
(B) The legal department.
(C) The internal audit department.
(D) The operations department.

Ans :

(D) The operations department.
After a sale is made, the marketing manager's job is not complete. They are expected to follow up with the operations department to ensure the effective processing and delivery of the sold products. This coordination is vital for a smooth post-sale experience for the customer, linking the marketing promise to operational fulfillment.

May/June 2006

28. What is the purpose of a Dedicated Marketing Manager engaging in Customer Relationship Management on a continuous basis?
(A) To conduct frequent KYC updates.
(B) To improve the loyalty factor and generate additional sales.
(C) To strictly monitor loan repayments.
(D) To fulfill a regulatory requirement only.

Ans :

(B) To improve the loyalty factor and generate additional sales.
Continuous Customer Relationship Management (CRM) is a strategic activity for marketing managers. Its dual purpose is to enhance customer loyalty by maintaining a strong, ongoing relationship and to identify opportunities for additional sales or cross-sales. This proactive engagement helps in retaining customers and maximizing their lifetime value to the bank.

Oct/Nov 2017

29. The standalone marketing model with Dedicated Marketing Managers was observed to improve which aspects of retail banking?
(A) Only the number of branches opened.
(B) Only the internal audit scores.
(C) The conversion levels and service delivery quality.
(D) The bank's stock market performance.

Ans :

(C) The conversion levels and service delivery quality.
The introduction of a dedicated and focused marketing approach through specialist managers yielded tangible results. Banks that adopted this model observed better achievement in converting leads into sales (conversion levels) and an overall improvement in the quality of service delivery to retail customers, validating the effectiveness of this specialized model.

May/June 2011

30. Assertion (A): The standalone marketing model, using Dedicated Marketing Managers, has led to improved effectiveness of delivery to retail customers.
Reason (R): These officers were given dedicated assignments, leading to a more focused marketing approach and better achievement of conversion levels and service quality.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that the dedicated model improved delivery effectiveness is true. The reason provided, which states that this improvement was due to the focused assignments given to these managers, directly explains why the model was successful. This focus led to better results in both sales conversions and service quality, as mentioned in the text.

NODIA

May/June 2022

14. What is the definition of "Customer Empathy" as a required trait for efficient service delivery?

(A) Unconditionally agreeing with every single demand or request made by the customer.

(B) Routinely offering special discounts and fee waivers to all customers regardless of situation.

(C) Expressing sympathy for a customer's financial problems without offering viable solutions.

(D) Viewing the service from the customer's perspective by understanding their feelings.

Ans :

(D) Viewing the service from the customer's perspective by understanding their feelings.

Customer Empathy is the ability to understand and share the feelings of another. In banking, it means the staff member puts themselves in the customer's position to view the service level from the customer's unique perspective. This trait is crucial for building rapport, resolving issues effectively, and delivering a truly customer-centric experience.

Oct/Nov 2020

15. For right selling and better product delivery, what must the branch staff possess?

(A) Deep product knowledge, understanding of service rules, and conviction in the offerings.

(B) A formal university degree in marketing, finance, or a closely related business field.

(C) A minimum of ten years of direct banking experience in a customer-facing service role.

(D) A set of aggressive sales targets combined with performance-linked incentive structures.

Ans :

(A) Deep product knowledge, understanding of service rules, and conviction in the offerings.

To effectively sell the right products and ensure superior delivery, staff must have a deep understanding of the product features and service guidelines. Crucially, they must also have a strong conviction in the value of the bank's offerings. This combination enables them to advise customers confidently and accurately, leading to better outcomes.

May/June 2013

16. What two concepts are mentioned together as a final essential trait for efficient service delivery by staff?

(A) A dual focus on profit maximization and enterprise-wide cost reduction.

(B) A service-oriented attitude and a teamwork approach to customer delivery.

(C) Strong skills in risk management and adherence to regulatory compliance.

(D) A drive for high individual performance and a strong competitive spirit.

Ans :

(B) A service-oriented attitude and a teamwork approach to customer delivery.

The sixth essential characteristic combines a positive attitude toward customer service with an understanding of teamwork in the delivery process. A service-oriented mindset ensures a focus on customer needs, while a team approach ensures that different staff members work together seamlessly to provide a consistent and high-quality customer experience at the branch.

Oct/Nov 2007

17. The adoption of essential traits like customer empathy, cross-selling, and product knowledge by branch staff primarily helps banks to achieve what?

(A) A significant reduction in the number of frontline employees required at each branch.

(B) Improved realization of retail business and more effective cross-selling of products.

(C) The ability to exclusively focus all resources on developing digital banking channels.

(D) The capacity to meet all regulatory compliance requirements with much greater ease.

Ans :

(B) Improved realization of retail business and more effective cross-selling of products.

When branch staff embody these essential characteristics, it leads to a better overall realization of the bank's retail business objectives. It improves service quality, enhances customer satisfaction, and directly aids the bank's ability to effectively cross-sell other relevant products, thereby deepening customer relationships and increasing profitability in a holistic manner.

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(C) To exclusively target high-net-worth individuals in metropolitan areas.
(D) To grow the scale of operations and achieve necessary market reach.

Ans :

(D) To grow the scale of operations and achieve necessary market reach.
Unlike public sector banks with extensive branch networks, new private banks need "feet on the street" to sell their products and expand their reach across the country. They view the DSA model as the most viable way to achieve the necessary scale of operations for growth.

Oct/Nov 2008

37. In the case of a large private player mentioned, more than what percentage of the retail asset portfolio, including Home Loans, is sourced through DSAs?
(A) 30%
(B) 50%
(C) 70%
(D) 90%

Ans :

(C) 70%
To illustrate the heavy reliance on DSAs by some private banks, it is noted that for a large private player, over 70% of its retail asset portfolio, which includes significant products like Home Loans, is sourced through the DSA channel, highlighting their critical role in business mobilization.

May/June 2015

38. Case Study: A new private sector bank with a limited number of branches wants to offer home loan services to customers in their homes, a service it calls "Doorstep Banking". Which delivery model is most effective for achieving this on a large scale?
(A) Relying solely on branch staff.
(B) Utilizing Direct Selling Agents (DSAs).
(C) Using Dedicated Marketing Managers.
(D) Setting up a call center for inbound inquiries.

Ans :

(B) Utilizing Direct Selling Agents (DSAs).
The case describes a need for extensive reach and proactive customer contact, which is the core strength of the DSA model. DSAs are "feet on the street" who can reach customers directly at their homes or offices for sourcing retail assets. This model allows banks to achieve "Doorstep Banking" on a large scale effectively.

NODIA

Oct/Nov 2013

39. How is the compensation for DSAs typically structured, distinguishing them from a bank's regular employees?
(A) It is a fixed monthly salary regardless of performance.
(B) It includes stock options and retirement benefits.
(C) It is based on seniority within the DSA agency.
(D) It is dependent on the volumes of business sourced.

Ans :

(D) It is dependent on the volumes of business sourced.
Unlike salaried employees, DSAs are not on the bank's payroll, which significantly reduces fixed costs for the bank. Their compensation is variable and fundamentally depends on the volume of business they successfully source. This performance-based model incentivizes them to maximize business generation, though it also carries risks of aggressive selling tactics.

May/June 2018

40. What is the most significant threatening factor for a bank in the DSA model, arising from the actions of field personnel?
(A) Reputation Risk.
(B) Operational Risk.
(C) Credit Risk.
(D) Market Risk.

Ans :

(A) Reputation Risk.
The DSA model poses a significant Reputation Risk. This is because field personnel, in their push to meet targets, may make false promises about Turn Around Time (TAT) or mis-sell products. Since the customer associates the service with the bank, any negative experience directly damages the bank's reputation.

Oct/Nov 2022

41. What does the acronym 'TAT' stand for in the context of retail asset processing?
(A) Total Asset Turnover.
(B) Tax Assessed Thoroughly.
(C) Turn Around Time.

(D) Transaction Approval Terminal.

Ans :

(C) Turn Around Time.
In the context of processing loan applications and other banking services, TAT stands for Turn Around Time. It refers to the total time taken from receiving a request or application to its final completion and delivery. DSAs might make false promises about a quick TAT to entice customers and close a sale.

May/June 2016

42. The focus of DSAs on "pure selling" rather than "effective marketing" often leads to what negative outcome?
(A) The customer suitability of the product takes a back seat.
(B) The processing time for loans becomes very long.
(C) The DSA's commission is significantly reduced.
(D) The bank gains a reputation for excellent service.

Ans :

(A) The customer suitability of the product takes a back seat.
DSAs are driven by sales volumes. This can lead them to focus on "pure selling"—pushing products to customers—rather than "effective marketing," which involves verifying customer needs. As a result, the suitability of the product for the customer's actual requirements is often overlooked, leading to potential mis-selling and future dissatisfaction.

Oct/Nov 2012

43. If a DSA fails to perform professionally, why is the bank's reputation at a greater risk than the DSA's?
(A) Because the DSA is not legally liable for their actions under the agency agreement.
(B) Because banks are more heavily regulated and face stricter penalties than DSA agencies.
(C) Because the customer signs the final contract with the DSA, not directly with the bank.
(D) Because a DSA has little to lose, while the bank's long-built reputation is at stake.

Ans :

(D) Because a DSA has little to lose, while the bank's long-built reputation is at stake.
The risk is asymmetric. A DSA may work for multiple banks, and a single failed relationship is a small issue for them. However, for the bank, its brand and the reputation it has built over many years are on the line. A failure by the DSA is perceived by the customer as a failure by the bank.

May/June 2021

44. Besides reputation risk, what is another potential negative consequence for a bank if a DSA fails to meet professional expectations?
(A) An increase in the bank's stock price.
(B) Regulatory action against the bank.
(C) Positive media coverage.
(D) Mandatory merger with another bank.

Ans :

(B) Regulatory action against the bank.
The responsibility for the actions of agents like DSAs ultimately lies with the principal, which is the bank. If a DSA engages in widespread mis-selling or unprofessional conduct that harms customers, the bank can face not only damage to its reputation but also scrutiny and punitive action from regulatory bodies.

Oct/Nov 2005

45. Which of the following is NOT a type of tie-up arrangement mentioned for banks to expand their retail loan portfolio?
(A) Tie-up with Builders for Home Loans.
(B) Tie-up with Auto Dealers for Car Loans.
(C) Tie-up with Technology Companies for Software Loans.
(D) Tie-up with Institutions for Personal Loans.

Ans :

(C) Tie-up with Technology Companies for Software Loans.
The text details several tie-up models for expanding retail assets. These include tie-ups with builders for home loans, auto dealers for car loans, institutions for personal loans to their employees, and educational institutions for education loans. A specific tie-up with technology companies for software loans is not mentioned in this context.

May/June 2014

46. In a tie-up with builders, what special concessions might a bank offer to prospective home loan borrowers?

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(A) Higher interest rates in exchange for faster loan processing.
(B) A mandatory life insurance policy bundled with the loan amount.
(C) A small share in the builder's future profit from the project.
(D) Waiver of various processing, documentation, or mortgage charges.

Ans :

(D) Waiver of various processing, documentation, or mortgage charges.
To attract borrowers in a builder tie-up, banks offer additional incentives. These often include special concessions like waiving or reducing various fees associated with the loan, such as processing charges, documentation charges, and mortgage charges. These waivers make the loan proposition more attractive for the buyer customers referred by the builder.

Oct/Nov 2023

47. In one type of bank-builder tie-up, how does the bank get repaid for the loan extended to the builder for the housing project?
(A) From the proceeds of the sale of flats to different buyers.
(B) From the builder's other business ventures.
(C) Through a government subsidy.
(D) The loan is converted into equity in the project.

Ans :

(A) From the proceeds of the sale of flats to different buyers.
In a specific tie-up model, the bank finances the builder's housing project directly. An arrangement is made where the builder repays this loan from the sales proceeds received from the individual buyers of the flats. Often, the end-buyers are also financed by the same bank, creating a closed financial loop for the project.

May/June 2008

48. In a tie-up with an auto dealer, what is a common practice for banks to solicit customers?
(A) Sending marketing emails to the dealer's customer database.
(B) Setting up a counter or desk in the auto dealer's showroom.
(C) Advertising on billboards outside the showroom.
(D) Offering loans only through the bank's mobile app.

Ans :

(B) Setting up a counter or desk in the auto dealer's showroom.
To capture customers at the point of sale, banks that tie up with auto dealers often establish a physical presence within the showroom. By setting up a counter or desk, the bank's staff can immediately engage with a customer who has decided to purchase a car, starting the loan process on the spot.

Oct/Nov 2019

49. Case Study: A car manufacturer, a dealer, and a bank collaborate to offer auto loans. They agree to share the cost of concessions given to the customer. What is the nature of this situation?
(A) A high-risk situation for the bank.
(B) A win-win situation for all three parties.
(C) A loss-making proposition for the dealer.
(D) An arrangement that primarily benefits the manufacturer.

Ans :

(B) A win-win situation for all three parties.
This tripartite arrangement creates a symbiotic relationship. The manufacturer and dealer sell more cars, while the banker extends more retail loans, improving profits for all. The customer benefits from maximum concessions, making the purchase more attractive. This collaborative approach where all parties contribute to the discount creates a classic win-win scenario.

May/June 2010

50. What factor is putting the traditional bank-dealer auto loan tie-up model under strain?
(A) Manufacturers offering credit via their own financing arms (NBFCs).
(B) A significant and prolonged decrease in car sales across the country.
(C) New, strict government regulations on all forms of auto financing.
(D) A growing customer preference for paying for new cars entirely with cash.

Ans :

(A) Manufacturers offering credit via their own financing arms (NBFCs).
The model is under strain because car manufacturers are increasingly using their

NODIA

own captive Non-Banking Finance Companies (NBFCs) to offer financing directly to buyers. By doing this, the manufacturer not only profits from the sale of the car but also from the financing, cutting the traditional banking partner out of the equation.

Oct/Nov 2016

51. In a tie-up for sanctioning Personal Loans to a group of employees of an institution, how is repayment typically assured for the bank?

(A) By collecting a full series of post-dated cheques from each individual employee.
(B) The bank is authorized to place a lien on the employee's retirement provident fund.
(C) The employer deducts the EMI from salaries and remits it to the bank.
(D) The loan is personally guaranteed by the Chief Executive Officer of the institution.

Ans :

(C) The employer deducts the EMI from salaries and remits it to the bank.
This model provides a strong repayment security mechanism for the bank. The employing institution agrees to deduct the loan installment amount directly from the employees' monthly salaries and remit the consolidated amount to the bank. This "check-off" facility ensures timely repayment and significantly reduces the risk of default for the bank.

May/June 2005

52. How do banks typically leverage tie-ups with reputed educational institutions to garner a good number of education loans?

(A) By offering scholarships to meritorious students.
(B) By advertising in the institution's annual magazine.
(C) By giving a donation to the institution's development fund.
(D) By setting up special counters during the admission season.

Ans :

(D) By setting up special counters during the admission season.
To effectively source education loans, banks adopt a targeted approach. They establish tie-ups with reputable educational institutions and set up special counters on campus, particularly during the busy admission season. This allows them to directly interact with students and parents seeking financing and process applications for meritorious students on the spot.

Oct/Nov 2024

53. To strengthen customer loyalty, what strategy is suggested for banks regarding their product offerings?

(A) Limiting customers to a single product to simplify the relationship.
(B) Offering products only through a single, designated channel.
(C) Encouraging customers to avail maximum number of products and services.
(D) Increasing the price of products for existing loyal customers.

Ans :

(C) Encouraging customers to avail maximum number of products and services.
To enhance the loyalty factor, banks should aim to deepen their relationship with each customer. This can be achieved by encouraging customers to use a wider range of the bank's products and services. A customer who uses multiple products is more integrated with the bank and less likely to switch to a competitor.

May/June 2017

54. What program should be in place in banks to help achieve the goal of having customers avail a maximum number of products and services?

(A) A robust internal audit program.
(B) An integrated Customer Relationship Management (CRM) programme.
(C) An aggressive cost-cutting program.
(D) A stringent employee performance appraisal program.

Ans :

(B) An integrated Customer Relationship Management (CRM) programme.
An integrated CRM program is essential for strengthening customer loyalty and increasing product penetration. Such a system provides a holistic view of the customer, enabling the bank to understand their needs, track interactions, and proactively offer relevant products and services, thereby encouraging them to use the bank for more of their financial needs.

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Oct/Nov 2011

55. According to RBI guidelines, what is the primary focus of the Co-Lending Model (CLM) involving Banks and NBFCs?
(A) To increase the profitability of large corporate loans for banks.
(B) To regulate the foreign exchange transactions of NBFCs.
(C) To reduce the number of NBFCs operating in the market.
(D) To improve credit flow to unserved and underserved sectors of the economy.

Ans :

(D) To improve credit flow to unserved and underserved sectors of the economy.
The RBI's CLM guidelines are primarily focused on improving the flow of credit to the unserved and underserved sectors of the economy. This is achieved by combining the lower fund costs of banks with the wider reach of NBFCs to provide affordable credit to the end beneficiary.

May/June 2022

56. The Co-Lending Model (CLM) aims to make funds available to beneficiaries at an affordable cost by combining which two key institutional strengths?
(A) The lower cost of funds from banks and the greater reach of NBFCs.
(B) The marketing skills of banks and the technology of NBFCs.
(C) The large branch network of banks and the international presence of NBFCs.
(D) The risk appetite of banks and the regulatory expertise of NBFCs.

Ans :

(A) The lower cost of funds from banks and the greater reach of NBFCs.
The synergy that the CLM aims to create is making funds available at an affordable cost by considering the lower cost of funds from banks and the greater reach of Non-Banking Finance Companies (NBFCs). This combination is the core principle behind the model's design to serve underserved sectors.

Oct/Nov 2020

57. What is the official name given by the RBI for the scheme where banks and NBFCs co-lend to the priority sector based on a prior agreement?
(A) Priority Sector Lending Scheme (PSLS).
(B) NBFC-Bank Partnership Model (NBPM).
(C) Co-Lending Model (CLM).
(D) Joint Lending Arrangement (JLA).

Ans :

(C) Co-Lending Model (CLM).
The official name for the framework that permits banks and NBFCs to co-lend to the priority sector based on a prior agreement is the 'Co-Lending Model' (CLM), as per the RBI guidelines.

May/June 2013

58. For the purpose of the RBI's Co-Lending Model (CLM) guidelines, the term 'NBFC' is inclusive of which other type of financial institution?
(A) Housing Finance Companies (HFCs).
(B) Commercial Banks.
(C) Regional Rural Banks.
(D) Payment Banks.

Ans :

(A) Housing Finance Companies (HFCs).
The RBI's guidelines clarify the scope of the term 'NBFC' for this specific model, stating that it includes both Non-Banking Finance Companies (NBFCs) and Housing Finance Companies (HFCs). Therefore, HFCs are also eligible to participate in the Co-Lending Model with banks.

Oct/Nov 2007

59. Under the Co-Lending Model (CLM), what is the minimum percentage of a priority sector loan that the originating NBFC must retain on its books?
(A) 80%
(B) 50%
(C) 10%
(D) 20%

Ans :

(D) 20%
The CLM guidelines stipulate that the originating NBFC must retain a minimum of 20% of the loan by way of direct exposure on its books. This "skin in the game" requirement ensures that the NBFC also bears a portion of the credit risk, aligning its interests with those of the co-lending bank.

May/June 2025

60. According to the terms of the Co-Lending Model (CLM), what is the maximum direct exposure a bank is permitted to have in a co-lent loan?
(A) 20%

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May/June 2006

70. What is the key to creating an 'opti-channel' experience for the customer?
(A) Forcing customers to use the bank's preferred digital channel.
(B) Enabling customers to use any preferred channel or device at their convenience.
(C) Offering a limited set of channels to avoid confusion.
(D) Shutting down all physical branches to focus on a digital-only model.

Ans :

(B) Enabling customers to use any preferred channel or device at their convenience.
An 'opti-channel' experience is about providing ultimate flexibility and choice to the customer. The key is to enable customers to transact with the bank using any channel they prefer—be it physical or digital—at any time and from any location. This customer-centric approach supports a seamless, integrated experience across all touchpoints.

Oct/Nov 2017

71. One of the four ways for banks to transform their delivery model is to "Create a high-touch, fully-integrated customer experience". What does this experience support?
(A) Only digital sales and service.
(B) Only physical sales and service.
(C) Only customer service, not sales.
(D) Both physical and digital sales and service.

Ans :

(D) Both physical and digital sales and service.
The transformation requires creating a superior customer experience that is both "high-touch" (personalized and engaging) and "fully-integrated." This integrated experience must support both sales and service activities across the entire spectrum of channels, including both physical touchpoints like branches and all available digital platforms, ensuring a seamless customer journey.

May/June 2011

72. Case Study: A bank is developing a new mobile app that includes budgeting tools, savings goal trackers, and personalized spending analyses. This initiative aligns with which of the four ways to transform the delivery model?
(A) Empowering customers with digital tools and content.
(B) Empowering frontline employees with real-time customer insight.
(C) Garnering commitment from upper management.
(D) Creating a high-touch, fully-integrated customer experience.

Ans :

(A) Empowering customers with digital tools and content.
The case describes the bank providing digital tools (budgeting, tracking) and content (analyses) directly to the customer. This aligns perfectly with the transformation strategy of empowering customers with digital tools and content to make personalized product and service selection and sales fulfillment possible, giving them more control.

Oct/Nov 2006

73. How can banks dramatically increase their employees' productivity, according to the third transformation strategy?
(A) By significantly increasing their work hours and sales targets.
(B) By completely replacing them with artificial intelligence and chatbots.
(C) By empowering them with cross-channel, real-time customer insight.
(D) By strictly limiting their access to customer data to prevent breaches.

Ans :

(C) By empowering them with cross-channel, real-time customer insight.
The third strategy focuses on enabling frontline staff. By providing employees with real-time, cross-channel customer insights and intelligence, banks can empower them to better understand and serve customer needs for both sales and service. This access to information dramatically increases their effectiveness and productivity in every interaction.

May/June 2020

74. The adoption of digital channels by customers creates a wealth of real-time data. What can banks create by analyzing this data on trends, liking, and patterns?
(A) A new scale of customer satisfaction and delight.

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(C) Employee training manuals.
(D) Internal audit findings.

Ans :

(B) Financial education.
To build a better delivery model, banks must respond to evolving customer needs. This involves not only delivering products and services but also providing financial education through all available channels. This holistic approach helps empower customers to make informed decisions, adding significant value beyond simple transactional banking and fostering trust.

May/June 2007

66. During the Covid-19 pandemic, what shift was observed in consumer behavior regarding availing financial services?
(A) An increasing number of consumers transacting their financial business remotely.
(B) A strong preference for visiting brick-and-mortar branches for all transactions.
(C) A reluctance to use any form of digital banking due to security fears.
(D) A complete halt in availing complex real estate or investment services.

Ans :

(A) An increasing number of consumers transacting their financial business remotely.
The pandemic acted as a catalyst for digital adoption. For nearly two years, a majority of consumers shifted away from preferring physical branches for routine transactions. Instead, an increasing number began using a variety of digital platforms like desktops, laptops, and phones to conduct their financial business remotely.

Oct/Nov 2025

67. Even with the rise of digital channels, for which types of issues might customers still prefer to visit a local bank branch?
(A) To quickly check their current account balance.
(B) To formally request a new cheque book issuance.
(C) For advice on complex real estate or investment matters.
(D) To officially update their registered mobile number.

Ans :

(C) For advice on complex real estate or investment matters.
While routine transactions have moved online, the physical branch still holds value for specific needs. Customers may still visit a branch for advice or validation regarding complex and high-stakes matters like real estate transactions, significant investments, or other complex servicing issues where face-to-face interaction and expert guidance are valued.

May/June 2023

68. What has been the key catalyst for the explosive growth of a hyper-connected customer base in the banking industry?
(A) Government mandates forcing digital adoption.
(B) A decline in the number of physical bank branches.
(C) Aggressive marketing by fintech startups.
(D) The rapid evolution and adoption of digital technology.

Ans :

(D) The rapid evolution and adoption of digital technology.
Technology is the primary catalyst for change. Digital technology is evolving rapidly, and customers are adopting it at record levels. This has led to double- to triple-digit growth in mobile banking users and resulted in a hyper-connected customer base that interacts with banks through multiple channels and devices.

Oct/Nov 2014

69. According to a study by McKinsey & Company, what proportion of consumers interact with their financial institutions through multiple channels?
(A) Less than 25 percent.
(B) Approximately 40 percent.
(C) More than 65 percent.
(D) Nearly 90 percent.

Ans :

(C) More than 65 percent.
A McKinsey & Company study highlighted the prevalence of multi-channel behavior, finding that more than 65 percent of consumers use multiple channels to interact with their financial institutions. This underscores the need for banks to provide a consistent and integrated experience across all platforms.

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(B) 80%
(C) 50%
(D) 100%

Ans :

(B) 80%
The contribution split in the CLM is clearly defined. Since the NBFC is required to retain a minimum of 20% of the loan exposure, it logically follows that the bank can take on the remainder, with its direct exposure being a maximum of 80% of the loan.

Oct/Nov 2009

61. Which of the following is defined as an 'Eligible Asset Class' for financing under the RBI's Co-Lending Model (CLM)?
(A) All types of corporate loans.
(B) Loans for trading in the stock market.
(C) All loans qualifying for Priority Sector Advances.
(D) All loans with a ticket size above ₹1 crore.

Ans :

(C) All loans qualifying for Priority Sector Advances.
The CLM guidelines specifically define "Eligible Asset Classes" as all loans that qualify for Priority Sector Advances as per the extant Master Circular/Directions on Priority Sector issued by the RBI. The model is explicitly designed to boost lending to these specific sectors of the economy.

May/June 2019

62. Which of the following is NOT listed as a typical selection criterion for an NBFC to act as an originator in a Co-Lending Model (CLM) arrangement?
(A) Proven track record.
(B) Robust credit and collections processes.
(C) Competent manpower.
(D) Being listed on a stock exchange.

Ans :

(D) Being listed on a stock exchange.
The selection criteria for an NBFC partner in a CLM arrangement focus on qualitative factors such as having a proven track record, geographical reach, robust processes, and competent manpower. There is no mention of a requirement for the NBFC to be listed on a stock exchange.

Oct/Nov 2015

63. In a Co-Lending Model (CLM) arrangement, what condition applies to the interest rate pricing for the bank's portion of the loan?
(A) It must be in line with applicable regulatory directions on interest rates.
(B) It must be at a fixed rate of 8%.
(C) It must be priced higher than the NBFC's portion.
(D) It is determined solely by the NBFC originator.

Ans :

(A) It must be in line with applicable regulatory directions on interest rates.
The rules for pricing under the CLM specify that the pricing of the underlying loans for the portion on the bank's contribution must be in line with the applicable regulatory directions on interest rate on advances. This ensures that the bank's lending practices remain compliant with regulations.

May/June 2012

64. What is the first step that banks and NBFCs are required to take before entering into a Co-Lending Model (CLM) arrangement?
(A) Seek approval from the Ministry of Finance.
(B) Formulate Board-approved policies for the arrangement.
(C) Inform all their existing customers via email.
(D) Publish an advertisement in national newspapers.

Ans :

(B) Formulate Board-approved policies for the arrangement.
As per RBI guidelines, the foundational step for both banks and NBFCs is to formulate their own internal policies for entering into the CLM. These policies must be formally approved by their respective Boards of Directors and subsequently placed on their websites for transparency, setting the internal governance framework for the partnership.

Oct/Nov 2018

65. In response to changing customer behavior, banks and financial institutions need to deliver products, services, and what other crucial element through both physical and digital channels?
(A) Shareholder reports.
(B) Financial education.

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(B) New regulatory compliance reports.
(C) Justifications for reducing staff salaries.
(D) A standardized, one-size-fits-all product for all customers.

Ans :

(A) A new scale of customer satisfaction and delight.
The data generated from digital channel usage is a valuable asset. By analyzing this data, banks can gain deep insights into customer behavior, financial affordability, and preferences. Using these findings to tailor the product delivery process can lead to a highly personalized experience, creating a new level of customer satisfaction and delight.

Oct/Nov 2010

75. For the significant changes in building a digital bank to succeed, from where must the organization garner commitment and a mandate?
(A) Only from the IT department.
(B) Only from the frontline employees.
(C) From the customers themselves through surveys.
(D) From upper management and boards.

Ans :

(D) From upper management and boards.
Major organizational transformation requires strong leadership support. For these changes to be successful, there must be a clear commitment and mandate from the highest levels of the organization—the upper management and the board of directors. This support must be both financial and emotional and extend throughout the organization.

May/June 2009

76. Which of the following is NOT one of the three important human interventions in physical channels as summarized in the text?
(A) Internal Customer - Staff of the Branch.
(B) Remote IT Support Staff.
(C) Specialised Marketing Personnel.
(D) Direct Selling Associates (DSAs).

Ans :

(B) Remote IT Support Staff.
The three key human roles involved in the service delivery process of physical channels are the branch staff (internal customers), specialised marketing personnel, and Direct Selling Associates (DSAs). Remote IT support staff, while important for bank operations, are not considered a direct human intervention in the physical channel service delivery.

Oct/Nov 2021

77. In the context of retail banking delivery, who is identified as the first point of contact in the customer's experience?
(A) The CEO of the bank.
(B) The Direct Selling Associate (DSA).
(C) The staff of the branch.
(D) The call center agent.

Ans :

(C) The staff of the branch.
The staff of the branch serve as the initial and primary point of contact for customers within the retail banking experience. Customer service expectations are therefore primarily met through the effective and efficient service delivery provided by these frontline employees at the branch level.

May/June 2024

78. What is the primary role of Specialised Marketing Managers as described in the summary?
(A) To handle day-to-day customer transactions at the teller counter.
(B) To approve and disburse retail loans at the branch.
(C) To manage the bank's digital marketing and social media presence only.
(D) To support the retail banking initiative through customer sourcing and need identification.

Ans :

(D) To support the retail banking initiative through customer sourcing and need identification.
Specialised Marketing Managers are professionals who support the bank's retail initiatives. Their key functions involve customer sourcing, identifying customer needs, and serving them end-to-end to help them avail the bank's products and services, acting as a dedicated force for business development in the retail segment.

Oct/Nov 2008

79. What key difference is highlighted in the summary regarding the role of marketing managers in private banks versus some public sector banks?

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May/June 2017

96. Match the concept (List-I) with its correct description (List-II).

List-I

P. Opti-channel experience
Q. Customer Empathy
R. Turn Around Time (TAT)
S. Right selling

List-II

1. Putting oneself in the customer's shoes.
2. Time taken from application to completion.
3. Enabling customers to use any channel they prefer.
4. Matching products to the customer's actual needs.

(A) P-3, Q-1, R-2, S-4
(B) P-1, Q-3, R-4, S-2
(C) P-3, Q-2, R-1, S-4
(D) P-4, Q-1, R-2, S-3

Ans :

(A) P-3, Q-1, R-2, S-4
Opti-channel experience (P) is about letting customers use their preferred channel (3). Customer Empathy (Q) is seeing things from the customer's perspective (1). Turn Around Time (R) is the total processing duration (2). Right selling (S) is ensuring the product fits the customer's needs (4).

Oct/Nov 2011

97. Which of the following is a key component of building a strong digital banking model as described in the text?

(A) Minimizing all direct customer interaction across every available channel.
(B) Creating a high-touch, integrated experience for physical and digital sales.
(C) Focusing all technology investment only on the bank's core banking system.
(D) Mandating that all complex financial transactions must be done exclusively online.

Ans :

(B) Creating a high-touch, integrated experience for physical and digital sales.
Building a digital bank is not just about technology but about the customer experience. A key way to add value is to create a "high-touch, fully-integrated customer experience" that seamlessly supports both sales and service activities across all channels, whether physical or digital, providing customers with choice and consistency.

May/June 2022

98. Case Study: A DSA for Bank XYZ convinces a customer to take a personal loan by promising it will be disbursed in 24 hours, knowing it actually takes 3-4 days. This act directly relates to making a false promise about what?

(A) The Turn Around Time (TAT).
(B) The interest rate.
(C) The KYC process.
(D) The loan insurance policy.

Ans :

(A) The Turn Around Time (TAT).
The DSA is making a false promise regarding the speed of loan processing and disbursement. This processing duration is known as the Turn Around Time (TAT). The text specifically mentions that DSAs may make false promises about TAT in their push to close sales, which creates a reputation risk for the bank.

Oct/Nov 2020

99. Which three of the following are listed as essential characteristics for efficient service delivery by branch staff?

I. Customer Empathy
II. Cross selling the right products
III. Experience in international banking
IV. Post sales service follow up

(A) I, II, and III
(B) I, III, and IV
(C) II, III, and IV
(D) I, II, and IV

Ans :

(D) I, II, and IV
The text lists six characteristics for efficient service delivery. Among the options provided, Customer Empathy, Cross selling the right products, and Post sales service follow up are three of the listed essentials. Experience in international banking is not mentioned as a required trait for general branch staff in this context.

May/June 2013

100. Assertion (A): The Co-Lending Model (CLM) allows banks to have a maximum direct exposure of 80% in a co-lent loan.
Reason (R): The CLM guidelines mandate that the originating NBFC must retain a minimum of

NODIA

(C) Electronic channels like Mobile Banking require significant human intervention for every transaction.
(D) Tie-ups with institutions are a valid model for expanding the personal loan portfolio.

Ans :

(C) Electronic channels like Mobile Banking require significant human intervention for every transaction.
This statement is incorrect. A key characteristic of electronic channels like ATM, Net Banking, and Mobile Banking is the absence of human intervention for routine transactions. The delivery of the requested service is met through automated machines or online solutions, contrasting with the high level of human involvement in physical channels.

May/June 2016

84. Case Study: A bank branch manager notices that while loan targets are being met, customer complaints about staff behavior are rising. The staff seem to lack an understanding of customer feelings. Which essential trait for efficient service delivery is most clearly missing?
(A) Cross selling.
(B) Post sales service follow up.
(C) Understanding product features.
(D) Customer Empathy.

Ans :

(D) Customer Empathy.
The scenario describes a situation where staff are not connecting with customers on an emotional level, leading to complaints despite meeting business targets. The missing trait is Customer Empathy, which is the ability to put oneself in the customer's shoes and see the service from their perspective, a key element of quality service delivery.

Oct/Nov 2012

85. Assertion (A): New generation private sector banks with limited branch penetration rely heavily on the DSA model.
Reason (R): DSAs provide the necessary "feet on the street" to reach a large section of customers, which is crucial for growing the scale of operations.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that the dedicated model improved delivery effectiveness is true. The reason provided, which states that this improvement was due to the focused assignments given to these managers, directly explains why the model was successful. This focus led to better results in both sales conversions and service quality, as mentioned in the text.

May/June 2021

86. Which of the following is a correct combination of statements regarding Dedicated Marketing Managers?
I. They were often MBAs in Marketing recruited from management schools.
II. Their compensation structure was purely fixed, with no variable component.
III. One of their key expectations was to follow up with the operations department for effective product delivery.
(A) I and II only.
(B) II and III only.
(C) I and III only.
(D) I, II, and III.

Ans :

(C) I and III only.
Statement I is correct, as they were often specialist MBAs. Statement III is correct, as following up with operations was a key expectation. Statement II is incorrect; their compensation structure was attractive and consisted of both fixed and variable components to make it performance-oriented, not purely fixed salary.

Oct/Nov 2005

87. Match the delivery channel/personnel (List-I) with their primary characteristic (List-II).
List-I
P. Branch Staff
Q. Direct Selling Agents (DSAs)
R. Tie-up with Institutions
S. Co-Lending Model (CLM)
List-II
1. Fee-based sourcing with high reputation risk.

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2. End-to-end service delivery at the first point of contact.
3. Assured repayment via salary deduction for personal loans.
4. Bank exposure capped at 80% for Priority Sector loans.

(A) P-2, Q-1, R-3, S-4
(B) P-1, Q-2, R-4, S-3
(C) P-2, Q-3, R-1, S-4
(D) P-4, Q-1, R-2, S-3

Ans :

(A) P-2, Q-1, R-3, S-4
Branch Staff (P) are the first point of contact for end-to-end delivery (2). DSAs (Q) work on a fee basis and carry reputation risk (1). Tie-ups with Institutions (R) for personal loans offer assured repayment from salary (3). The Co-Lending Model (S) has a rule where the bank's exposure is a maximum of 80% (4).

May/June 2014

88. Consider the following statements about retail banking delivery:
Statement I: In public sector banks, service delivery is often more personalised due to the loyalty factor of customers.
Statement II: The concept of Direct Selling Agents was pioneered and nurtured well by public sector banks.
(A) Only Statement I is correct.
(B) Only Statement II is correct.
(C) Both Statement I and Statement II are correct.
(D) Neither Statement I nor Statement II is correct.

Ans :

(A) Only Statement I is correct.
Statement I is correct; the text notes that the loyalty of PSB customers contributes to a more personalised service environment. Statement II is incorrect; the DSA concept was pioneered by foreign banks and nurtured by new generation private sector banks, not public sector banks, which have a wide-reaching branch network.

Oct/Nov 2023

89. The effectiveness of delivery to retail customers improved significantly in the dedicated model featuring specialist marketing managers. Which of the following was NOT listed as an expectation from these officers?
(A) Market Intelligence and Potential Sourcing.
(B) Right selling to the targeted customer group.
(C) Conducting the annual statutory audit of the bank.
(D) Closing the leads with sales and ensuring compliance with promises.

Ans :

(C) Conducting the annual statutory audit of the bank.
The text lists nine specific expectations from Dedicated Marketing Managers, all related to marketing, sales, and customer relationship management. These include market intelligence, sourcing, right selling, and closing leads. Conducting the annual statutory audit is a function of the audit department and is completely outside the purview of their role.

May/June 2008

90. Case Study: A bank offers a home loan to a customer through a tie-up with a builder. The bank waives the processing fee and the builder offers a discount on the flat. Who are the primary beneficiaries in this scenario?
(A) The bank, the builder, and the customer.
(B) Only the bank.
(C) Only the builder.
(D) Both the bank and the builder, but not the customer.

Ans :

(A) The bank, the builder, and the customer.
This is a win-win-win situation. The bank gains a home loan customer. The builder makes a sale. The customer benefits from both the waiver of the processing fee from the bank and the discount from the builder, making the overall deal more attractive and affordable. All three parties involved gain a clear benefit.

Oct/Nov 2019

91. Which of the following four statements regarding the DSA model are correct?
I. DSAs are on the bank's permanent payroll.
II. Mis-selling of credit cards is a rampant issue.
III. The final KYC scrutiny is done by the bank, not the DSA.
IV. The model helps private banks achieve "Doorstep Banking".
(A) I, II, and III only
(B) II, III, and IV only
(C) I, III, and IV only
(D) I, II, and IV only

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Ans :

(B) II, III, and IV only
Statement I is incorrect; DSAs are not on the bank's payroll but work on a fee basis. Statement II is correct, as mis-selling is a major risk. Statement III is correct, as the bank is responsible for final scrutiny and KYC. Statement IV is correct, as DSAs enable doorstep banking by reaching customers directly.

May/June 2010

92. The transformation of a bank's delivery model to serve digitally empowered consumers involves several key actions. Which of the following is NOT one of the five actions mentioned?
(A) Empowering customers with digital tools and content.
(B) Reducing the number of products offered to simplify choices.
(C) Empowering frontline employees with real-time customer insight.
(D) Garnering commitment and mandate from upper management and boards.

Ans :

(B) Reducing the number of products offered to simplify choices.
The text outlines five key actions for transformation: creating an integrated experience, empowering customers with tools, empowering employees with insight, using data for personalization, and getting management buy-in. Reducing the product portfolio is not mentioned as one of these core strategies for building a better digital delivery model.

Oct/Nov 2016

93. What is the primary reason the personal loan tie-up model with institutions is attractive to banks?
(A) The loan amounts are typically very large.
(B) The interest rates charged are much higher than normal.
(C) The repayment of the loan is assured through salary deductions.
(D) The processing and documentation are completely waived.

Ans :

(C) The repayment of the loan is assured through salary deductions.
The key advantage of this model for the bank is the significantly reduced credit risk. The arrangement where the employer deducts the EMI directly from the employee's salary and remits it to the bank provides a strong assurance of timely repayment, making it a secure and attractive lending proposition for the bank.

May/June 2005

94. Identify the incorrect pair from the following options:
(A) Internal Customer : Responsible for end-to-end service delivery at branch.
(B) Dedicated Marketing Manager : Compensation includes fixed and variable components.
(C) Direct Selling Agent : Pioneered by Public Sector Banks.
(D) Co-Lending Model : Aims to improve credit flow to unserved sectors.

Ans :

(C) Direct Selling Agent : Pioneered by Public Sector Banks.
The pair is incorrect because the concept of Direct Selling Agents (DSAs) was pioneered by foreign banks and later nurtured by new-generation private sector banks. Public Sector Banks, with their extensive branch networks, did not pioneer this model. All other pairs correctly match the entity with its characteristic as described in the text.

Oct/Nov 2024

95. According to the text, what is the impact of a DSA focusing on "pure selling" by pushing products?
(A) The customer suitability of the product takes a back seat.
(B) It leads to higher customer satisfaction.
(C) It ensures the customer suitability of the product.
(D) It reduces the reputation risk for the bank.

Ans :

(A) The customer suitability of the product takes a back seat.
The text distinguishes between "pure selling" and "effective marketing." When a DSA focuses on pure selling to maximize volume, they push products without properly verifying the customer's actual needs. As a direct result, the suitability of that product for that specific customer is neglected or "takes a back seat," leading to potential mis-selling.

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(A) Private bank managers focus on sourcing, while some PSB managers do end-to-end servicing.
(B) Managers in Public Sector Banks are consistently paid more than their private bank counterparts.
(C) Private bank managers are permitted to work from home, while PSB managers are always branch-based.
(D) PSB managers focus primarily on corporate clients, while private bank managers focus only on retail.

Ans :

(A) Private bank managers focus on sourcing, while some PSB managers do end-to-end servicing.
A procedural difference is often noted. In private banks, marketing managers typically focus on customer sourcing and initial verification, then pass the case to a process team. In contrast, in some public sector banks, these managers handle the entire end-to-end servicing for retail products and assets themselves.

May/June 2015

80. The summary states that while DSAs are effective intermediaries, their focus on revenue maximization over customer satisfaction can lead to what negative outcome?
(A) A significant reduction in the bank's overall operational costs.
(B) Cases of mis-selling, especially in credit cards.
(C) A measurable increase in long-term customer loyalty and retention.
(D) Much faster loan processing times for all types of customers.

Ans :

(B) Cases of mis-selling, especially in credit cards.
While DSAs can be effective, a key risk is highlighted when they prioritize revenue and business maximization over genuine customer satisfaction. This can result in unprofessional conduct, with many reported cases of mis-selling, particularly with credit card products and their resultant delinquencies.

Oct/Nov 2013

81. Which of the following is NOT mentioned in the summary as a type of tie-up channel used by banks to expand retail assets?
(A) Tie-ups with builders for home loans.
(B) Tie-ups with stockbrokers for margin funding.
(C) Tie-ups with auto dealers for auto loans.
(D) Tie-ups with institutions for Personal and Educational Loans.

Ans :

(B) Tie-ups with stockbrokers for margin funding.
The summary lists several examples of tie-up channels for expanding a bank's retail asset portfolio. These include collaborations with builders (home loans), auto dealers/ manufacturers (auto loans), and various institutions for personal and educational loans. Tie-ups with stockbrokers for margin funding are not mentioned in this specific list.

May/June 2018

82. To effectively serve digitally empowered consumers, what fundamental change must occur in banks and financial institutions?
(A) Their delivery model must change by building a strong digital banking model.
(B) They must significantly increase the total number of their physical branches nationwide.
(C) They must substantially lower the interest rates offered on all of their loan products.
(D) They must immediately stop using all external intermediaries like DSAs completely.

Ans :

(A) Their delivery model must change by building a strong digital banking model.
To cater to the modern, digitally empowered consumer, it is imperative for banks to evolve. Specifically, their delivery model concerning distribution must be transformed through the development of a robust and strong digital banking model that integrates with physical channels.

Oct/Nov 2022

83. Which of the following statements about retail banking delivery models is incorrect?
(A) Delivery effectiveness in physical channels is heavily influenced by the staff delivering the service.
(B) The DSA model was pioneered by foreign banks and later adopted by new-generation private banks.

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20% of the loan exposure on its own books.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).

(C) (A) is true but (R) is false.

(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

The assertion that the bank's maximum exposure is 80% is true. The reason that the NBFC must retain a minimum of 20% is also true. The reason directly explains the assertion, as the bank's 80% maximum share is a direct consequence of the NBFC's mandatory 20% minimum retention (80% + 20% = 100%).

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CHAPTER 20

Customer Relationship Management in Retail Banking

Oct/Nov 2016

1. According to the principles of modern banking, what are the primary objectives that all banks strive to ensure in their day-to-day operations in a highly competitive environment?
   (A) Maximizing shareholder wealth and regulatory compliance
   (B) Efficient customer service and customer satisfaction
   (C) Expanding branch networks and increasing employee headcount
   (D) Focusing solely on corporate lending and treasury operations

Ans :

(B) Efficient customer service and customer satisfaction
In today's competitive banking landscape, the primary focus for banks is to ensure efficient customer service and achieve high levels of customer satisfaction. These factors are crucial for retaining existing customers, attracting new ones, and differentiating a bank from its competitors, including Public Sector, Private, and Foreign banks vying for market share.

May/June 2021

2. What is the fundamental goal of Customer Relationship Management (CRM) as a management philosophy?
   (A) To achieve company goals by identifying and satisfying stated and unstated customer needs
   (B) To primarily reduce operational expenditures by implementing widespread automation across all departments
   (C) To concentrate company resources exclusively on acquiring new clients via large-scale, undifferentiated marketing
   (D) To prioritize the adoption of new technological systems without considering their effect on customer interactions

Ans :

(A) To achieve company goals by identifying and satisfying stated and unstated customer needs
CRM is defined as a management philosophy where a company's objectives are best met by deeply understanding and fulfilling the complete spectrum of customer needs and wants, both expressed and unstated. This customer-centric approach is central to building lasting relationships and achieving sustainable growth, rather than focusing purely on technology or acquisition tactics.

Oct/Nov 2005

3. What is the primary objective of implementing a CRM system in an organization?
   (A) To restrict access to all compiled customer data exclusively for the use of the marketing department
   (B) To systematically replace all human front-office employees with fully automated, customer-facing solutions
   (C) To create a unified, 360-degree customer view accessible across the entire organization
   (D) To manage client relationships solely with the segment of high-net-worth individuals and corporate accounts

Ans :

(C) To create a unified, 360-degree customer view accessible across the entire organization
A primary goal of CRM is to consolidate customer information from all sources and touchpoints into a single, comprehensive profile. This provides the entire organization with a 360-degree view of the customer, enabling consistent and informed interactions, which in turn enhances service quality and strengthens the customer relationship across all departments.

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May/June 2012

4. Which of the following are the three fundamental elements of CRM?

(A) Technology, Process, and People
(B) Sales, Marketing, and Service
(C) Data, Analytics, and Reporting
(D) Customer, Relationship, and Management

Ans :

(D) Customer, Relationship, and Management
The core of Customer Relationship Management is encapsulated in its three constituent elements: the Customer, who is the focus of all activities; the Relationship, which signifies the connection and interaction quality; and the Management, which involves the strategies and processes used to nurture and enhance that relationship for mutual benefit and long-term value.

Oct/Nov 2022

5. In the context of CRM in banking, what does the term 'Relationship with the customer' fundamentally imply?

(A) The bank's consistent ability to provide the market's lowest interest rates on all offered loan products
(B) The total number of distinct financial products a single customer has purchased or subscribed to from the bank
(C) The bank's service quality meeting a customer's total expectations to ensure complete satisfaction
(D) The specific frequency of a customer's physical visits to a brick-and-mortar branch for transactions

Ans :

(C) The bank's service quality meeting a customer's total expectations to ensure complete satisfaction
The 'relationship' aspect in CRM signifies that the bank's service quality must align perfectly with the customer's overall expectations. This alignment, covering the entire spectrum of customer needs, should culminate in absolute customer satisfaction. It goes beyond mere transactions to encompass the holistic experience and fulfillment of the customer's requirements with the bank.

May/June 2007

6. Which of the following best describes the core purpose of CRM in terms of customer profitability?

(A) To strategically reduce the number of services offered in order to minimize the bank's operational costs
(B) To increase the bank's share of wallet and improve per-customer profitability
(C) To focus marketing efforts exclusively on acquiring new customers, without regard for their potential profitability
(D) To standardize all financial products and associated services for every customer segment without differentiation

Ans :

(B) To increase the bank's share of wallet and improve per-customer profitability
The strategic purpose of CRM is to deepen the financial relationship with each customer, thereby increasing the 'share of wallet'—the portion of a customer's total spending that goes to the bank. This focus on cross-selling and up-selling relevant services, based on a deep understanding of the customer, directly contributes to improving per-customer profitability.

Oct/Nov 2014

7. Which of the following is NOT a stage involved in a CRM initiative as described in the context of retail banking?

(A) Capturing the customer's profile through a technology-enabled model
(B) Designing suitable products and services to cater to different information buckets
(C) Minimising response time to customer's enquiries and requirements
(D) Implementing a universal pricing strategy for all customer segments

Ans :

(D) Implementing a universal pricing strategy for all customer segments
A key stage of a CRM initiative involves offering products and services to targeted and segmented customers with the right pricing. This implies a differentiated pricing strategy based on customer profiles and value, rather than a universal or one-size-fits-all approach. The other options are all valid stages in implementing a CRM program.

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May/June 2023

8. Identify the correct statement regarding the stages of a CRM initiative.

(A) Establishing customer centricity by ensuring all staff members are aligned with the philosophy is a foundational stage

(B) CRM initiatives should begin by designing new products and then searching for customers to buy them

(C) A 360-degree view of the customer should only be created after offering them various products and services

(D) The dynamic tracking of customer information is a process reserved exclusively for newly acquired customers

Ans :

(A) Establishing customer centricity by ensuring all staff members are aligned with the philosophy is a foundational stage

The first stage mentioned for a CRM initiative is achieving customer centricity by getting the whole staff on board. This cultural shift is fundamental to the success of any CRM program, as it ensures that the entire organization is aligned with the goal of prioritizing the customer in all processes and decisions.

Oct/Nov 2009

9. What are the three dimensions through which customer optimisation, the essence of CRM, can be addressed?

(A) Marketing, Sales, and Service

(B) Technology, Data, and Analytics

(C) Acquisition, Retention, and Expansion

(D) Product, Price, and Place

Ans :

(C) Acquisition, Retention, and Expansion

Customer optimisation is addressed through three key dimensions. First, the acquisition of new, immediately profitable customers. Second, the retention of existing customers who are most profitable and valuable. Third, the expansion of the customer relationship by encouraging more purchases and shifting less profitable customers to lower-cost channels, thereby maximizing overall value.

May/June 2016

10. Which of the following is listed as a primary reason for implementing CRM in retail banking?

(A) The need to increase operational efficiencies and derive more value from employees

(B) The strategic need to decrease the overall use of technology within physical bank branches

(C) The consistently declining importance of generating fee-based income from various non-interest sources

(D) A significant decrease in competition among PSU, Private, and Foreign banks within the market

Ans :

(A) The need to increase operational efficiencies and derive more value from employees

The text explicitly lists several reasons 'Why CRM?' is important for banks. Among the primary drivers are the need to increase operational efficiencies, such as by managing delivery costs, and the need to derive more value from employees by improving their productivity and deploying them in value-added roles like marketing and cross-selling.

Oct/Nov 2025

11. How does CRM contribute to increasing operational efficiencies in branch banking?

(A) By actively encouraging all customers to use only teller services for every transaction at the branch

(B) By rapidly increasing the number of physical branch locations to reduce average customer wait times

(C) By systematically eliminating all remote delivery channels to focus solely on in-person branch service

(D) By identifying customer segments that can be migrated to lower-cost electronic channels like ATMs

Ans :

(D) By identifying customer segments that can be migrated to lower-cost electronic channels like ATMs

CRM helps improve operational efficiencies by analyzing customer data to identify segments that are suitable for and can be encouraged to use lower-cost channels like ATMs. Shifting transactions from the more expensive across-the-counter service at a branch to self-service electronic channels directly reduces the bank's operational and delivery costs per transaction.

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May/June 2019

12. In the context of deriving more value from employees through CRM, what are the two dimensions of value that are enhanced?

(A) Employee satisfaction and employee turnover
(B) Employee value and customer value
(C) Employee training cost and employee salary
(D) Employee attendance and employee compliance

Ans :

(B) Employee value and customer value
The value derived from employees is twofold. 'Employee value' is increased by productively deploying them in roles like marketing and cross-selling, especially as technology handles routine tasks. This, in turn, enhances 'customer value', which is a derivative of employee output and is measured by per-customer profitability through increased product and service usage.

Oct/Nov 2006

13. Which retail banking products are highlighted as being unsecured and particularly susceptible to becoming Non-Performing Assets (NPAs)?

(A) Home Loans and Vehicle Loans
(B) Gold Loans and Loans against Property
(C) Credit Cards and Personal Loans
(D) Agricultural Loans and Educational Loans

Ans :

(C) Credit Cards and Personal Loans
The text specifically identifies sensitive retail products like Credit Cards and Personal Loans as being basically unsecured. This lack of collateral makes them more susceptible to delinquencies and turning into NPAs compared to other secured loan products, posing an inherent risk in the retail banking business model that CRM helps manage.

May/June 2005

14. How does CRM assist banks in managing the risk of rising NPAs in retail lending?

(A) By implementing a policy of automatically approving all loan applications to rapidly increase volume
(B) By indiscriminately offering higher credit limits to all customers regardless of their risk profile
(C) By completely eliminating the need for any credit scoring models during the loan assessment process
(D) By providing an effective mechanism for customer tracking and follow-up for recovery

Ans :

(D) By providing an effective mechanism for customer tracking and follow-up for recovery
While credit scoring models are used at the time of assessment, NPAs can still occur. CRM plays a crucial role post-disbursement by providing tools for effective customer tracking. This allows banks to monitor accounts, identify early signs of delinquency, and systematically manage the follow-up and recovery process for overdue retail loans.

Oct/Nov 2010

15. Why has fee-based income, particularly through Third Party Distribution, become an attractive option for banks?

(A) Because Net Interest Margins are on the decline due to competitive pressure on spreads
(B) Because the bank's Net Interest Margins are steadily and consistently increasing year over year
(C) Due to new regulatory requirements that mandate the sale of specific third-party financial products
(D) Due to a widespread lack of customer demand for the bank's traditional banking and loan products

Ans :

(A) Because Net Interest Margins are on the decline due to competitive pressure on spreads
Banks are increasingly focusing on fee-based income because their traditional source of profit, the Net Interest Margin (NIM), is declining. This decline is caused by competitive pressure on spreads (the difference between lending and deposit rates). Selling third-party products like insurance and mutual funds provides a non-interest revenue stream to improve bottom lines.

May/June 2018

16. Which of the following is mentioned as an avenue for banks to augment fee-based income, where CRM can help identify potential customers?

(A) Significantly increasing the standard service charges on all basic savings and current accounts
(B) Marketing of insurance products and retail sale of Sovereign Gold Bonds

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(C) Levying exceptionally high penalty fees for the premature withdrawal of all fixed deposit accounts
(D) Charging mandatory access fees for customers using the bank's proprietary mobile banking application

Ans :

(B) Marketing of insurance products and retail sale of Sovereign Gold Bonds
The text highlights Third Party Distribution as a key source of fee-based income. It specifically mentions the marketing of life and non-life insurance, mutual funds, and the retail sale of India Gold Coins and Sovereign Gold Bonds as avenues to augment this income. CRM solutions help by identifying targeted customer segments for these products.

Oct/Nov 2016

17. What is meant by 'Delivery Channel Efficacy' in the context of CRM?
(A) Forcing all customer segments to use a single, standardized, and mandatory delivery channel
(B) Offering the right mix of physical and remote channels tailored to different customer segments
(C) Methodically phasing out all physical branches in favor of a purely digital-only banking model
(D) Focusing exclusively on the cost-effectiveness of channels, ignoring all customer preferences and habits

Ans :

(B) Offering the right mix of physical and remote channels tailored to different customer segments
Delivery Channel Efficacy refers to the bank's ability to provide the optimal blend of delivery channels (e.g., branches, ATMs, mobile banking, internet banking) tailored to the preferences of different customer segments. CRM helps analyze customer behavior to offer this right mix, thereby enhancing customer satisfaction, loyalty, and retention.

May/June 2014

18. What are considered the two critical tools that form the backbone of any meaningful CRM implementation?
(A) Data Warehouse and Data Mining
(B) Core Banking Solutions (CBS) and Mobile Banking
(C) Social Media and Email Marketing
(D) ATMs and Point-of-Sale (POS) terminals

Ans :

(A) Data Warehouse and Data Mining
The text emphasizes that the backbone of CRM is robust customer data. Data Warehouse and Data Mining are identified as the two critical tools for this purpose. The Data Warehouse acts as the central repository for customer data, while Data Mining techniques are used to analyze this data to generate actionable insights for CRM strategies.

Oct/Nov 2007

19. For a CRM practice to yield the desired results, from where must the data for the Data Warehouse seamlessly flow?
(A) From manually transcribed data that is collected using paper-based customer feedback forms
(B) From various external third-party data vendors and specialized marketing research agencies
(C) From the Core Banking Solutions (CBS) platform without manual intervention
(D) From the bank's public-facing social media platforms and comment sections exclusively

Ans :

(C) From the Core Banking Solutions (CBS) platform without manual intervention
To ensure data accuracy, which is critical for effective CRM, the sourcing of data for the Data Warehouse must be a seamless, automated flow from the bank's Core Banking Solutions (CBS) platform. Any manual intervention introduces the risk of errors, which can lead to flawed analysis and poor business decisions, undermining the entire CRM effort.

May/June 2025

20. Which of the following is NOT a point of contact from which CRM systems compile customer information?
(A) The bank's website and telephone interactions
(B) Direct mail, marketing materials, and social media
(C) Live chat and personal interactions at the branch
(D) Competitor's internal marketing strategies

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Ans :

(D) Competitor's internal marketing strategies
CRM systems are designed to compile information on customers across all channels or points of contact between the customer and the bank itself. This includes the bank's website, phone calls, live chat, direct mail, and social media. Information about a competitor's internal strategies is external intelligence and not typically part of a customer's interaction data.

Oct/Nov 2019

21. What is a primary security concern for customers related to the use of CRM in the digital age?
(A) The inherent risk of receiving an excessive number of marketing emails and promotional messages
(B) The distinct possibility of the bank discontinuing a financial product or service that they currently use
(C) The privacy and safety of their personal information against cyber threats
(D) The perceived complexity involved in navigating and using the bank's online banking portal

Ans :

(C) The privacy and safety of their personal information against cyber threats
With the growth of the internet and related technologies, customers are increasingly concerned about the privacy and security of their personal data held by businesses. For CRM to be trusted, banks must ensure the highest levels of protection for stored customer data against cyber criminals, identity theft, and other security breaches.

May/June 2009

22. Which feature of CRM software allows for automating repetitive tasks to enhance marketing efforts at different points in the customer lifecycle?
(A) Sales force automation
(B) Marketing automation
(C) Geolocation technology
(D) Contact center automation

Ans :

(B) Marketing automation
Marketing automation is a feature of CRM tools specifically designed to automate repetitive marketing activities. For instance, as a sales lead enters the system, it can automatically trigger the sending of marketing materials via email or social media, nurturing the lead through the sales funnel with the goal of converting them into a customer.

Oct/Nov 2011

23. What is the main purpose of 'Sales force automation' as a feature in a CRM system?
(A) To automatically generate and assign mandatory sales targets for the members of the marketing team
(B) To design and execute marketing campaigns based on a customer's registered physical location or country
(C) To provide customers with pre-recorded audio messages for troubleshooting common product-related problems
(D) To prevent duplicate efforts by tracking contacts between a salesperson and a customer

Ans :

(D) To prevent duplicate efforts by tracking contacts between a salesperson and a customer
Sales force automation, also known as sales force management, aims to improve efficiency by preventing redundant interactions. A CRM system achieves this by automatically tracking all contacts and follow-ups between a salesperson and a customer, ensuring that both parties have a clear and consistent communication history, avoiding wasted effort.

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May/June 2010

24. "SBI has introduced artificial intelligence banking platform known as SBI Intelligent Assistant (SIA). SIA has reportedly been set up to handle nearly 10,000 enquiries per second, or 864 million in a day, which is nearly 25% of the queries processed by Google every day."
Based on the provided information, what capability does the SBI Intelligent Assistant (SIA) demonstrate?
(A) A high-volume query processing capacity comparable to a significant fraction of a major search engine's traffic
(B) A capacity designed to handle only a small and limited number of specialized user queries per day
(C) An ability to process only a quarter of the

bank's own internal, employee-generated queries
(D) A system that was designed exclusively for handling in-person inquiries made at physical branches

Ans :

(A) A high-volume query processing capacity comparable to a significant fraction of a major search engine's traffic
The source explicitly states that SIA can handle nearly 10,000 enquiries per second, which is a massive volume. It further contextualizes this by noting this capacity is nearly 25% of the queries processed by Google daily. This highlights its high-volume processing power, making it a powerful tool for contact center automation.

Oct/Nov 2024

25. How can geolocation technology within a CRM system be used for marketing?
(A) By consistently tracking employee locations during work hours in order to monitor their daily productivity
(B) By performing an analysis of historical sales data aggregated from different countries and regions
(C) By creating geographic marketing campaigns based on customers' physical locations
(D) By sending generic, non-targeted marketing emails to all customers regardless of their current location

Ans :

(C) By creating geographic marketing campaigns based on customers' physical locations
Geolocation technology in CRM systems uses data on a customer's physical location to enable targeted marketing. This can involve creating specific campaigns for a particular geographic area, sometimes integrating with GPS apps. This feature allows for location-based offers and helps in finding sales prospects within a certain vicinity, making marketing efforts more relevant.

May/June 2017

26. What is 'relational intelligence' in the context of CRM?
(A) The awareness of the variety of relationships a customer can have with a firm, beyond demographic data
(B) The technical ability of a new CRM system to integrate seamlessly with a bank's legacy IT infrastructure
(C) A specific customer's cognitive ability to understand complex and sophisticated financial products
(D) The processing speed at which a bank's main server can query and retrieve stored customer data

Ans :

(A) The awareness of the variety of relationships a customer can have with a firm, beyond demographic data
Relational intelligence refers to a deeper understanding of customer relationships that goes beyond a mechanical view based on demographics and purchase history. It involves recognizing that customers are not just resources for up-selling but are individuals seeking personalized interactions, and it acknowledges the diverse types of relationships they can form with a company.

Oct/Nov 2005

27. Which of the following is a key issue that makes the implementation of CRM in Indian banks a tough process?
(A) The general lack of customer demand for improved service quality and personalized interactions from banks
(B) The homogenous and standardized nature of business processes found across all banks in the sector
(C) The universal adoption of a single, standardized IT platform by every bank operating in the industry
(D) The different nature of business process structures, organization structures, and technology architecture among banks

Ans :

(D) The different nature of business process structures, organization structures, and technology architecture among banks
The implementation of CRM is challenging because each bank has a unique environment. This includes distinct business processes, varied organizational structures, and different legacy technology systems and IT architectures. A CRM solution cannot be a one-size-fits-all product; it must be customized to integrate with these specific, pre-existing conditions within each bank.

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May/June 2020

28. In the CRM implementation process, why is the evaluation of current business processes essential?

(A) To make final decisions on which employees to retain and which to let go during the transition

(B) To determine the nature of products the bank wants to offer and how to develop its customer portfolio

(C) To select a completely new Core Banking Solution to replace the existing one for the entire bank

(D) To ensure strict compliance with international banking regulations and reporting standards only

Ans :

(B) To determine the nature of products the bank wants to offer and how to develop its customer portfolio

Evaluating the existing business processes is a critical first step in CRM implementation. This analysis helps the bank define its product strategy and customer portfolio development goals. The orientation and description of these processes are key requirements for the effective customization of the CRM solution to fit the specific needs and objectives of the bank.

Oct/Nov 2015

29. What is the focus of CRM implementation regarding a bank's existing information systems and IT infrastructure?

(A) Complete replacement of all existing legacy systems

(B) Ignoring the existing infrastructure and building a parallel system

(C) Reinforcement of existing systems rather than wholesale replacement

(D) Outsourcing all IT functions to a third-party vendor

Ans :

(C) Reinforcement of existing systems rather than wholesale replacement

When implementing CRM, the approach towards existing IT infrastructure and legacy systems is not to simply replace them. Instead, the focus is on reinforcement. The new CRM infrastructure should be customized to integrate with, enhance, and improve upon the existing systems, ensuring a smoother transition and leveraging prior technology investments.

May/June 2013

30. For a CRM implementation to be successful, what is required in addition to the integration of systems?

(A) A significant and immediate increase in the overall marketing budget for advertising campaigns

(B) A strategic reduction in the total number of financial products offered to the bank's customers

(C) A complete and total freeze on hiring any new employees for the duration of the implementation

(D) An accompanying organizational change and a responsive internal culture

Ans :

(D) An accompanying organizational change and a responsive internal culture

Successful CRM implementation is not just a technological exercise; it has an equally important human and organizational dimension. The bank's systems must align with organizational change. The success of the initiative depends on the homogenization of CRM principles within the organization's culture and the responsiveness of the organization to develop the customer relationships promised by CRM.

Oct/Nov 2021

31. A retail bank is initiating a CRM program. The project manager decides that the first step is to build a repository of data about customers who use different products and services, compiled correctly through all available channels. What is this initial stage of CRM implementation called?

(A) Identification of Customers

(B) Classification of Customers

(C) Interaction with the most Valued Customers

(D) Customisation of Bank's Products and Services

Ans :

(A) Identification of Customers

This scenario describes the very first stage of CRM implementation: the Identification of Customers. This starting point involves identifying the bank's customers based on the products they use and building a comprehensive, accurate database. This foundational data repository is the basis

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upon which all subsequent CRM structuring, segmentation, and strategies are built.

May/June 2024

32. What is the second stage of CRM implementation, which follows the Identification of Customers?
(A) Customisation of Bank's Products
(B) Classification of Customers
(C) Interaction with Valued Customers
(D) Launching new marketing campaigns

Ans :

(B) Classification of Customers
After identifying customers and compiling their data in the first stage, the second stage is the Classification of Customers. This involves using techniques like data mining and clustering to segment customers based on various parameters such as profitability, product usage rate, and cost to serve, allowing the bank to develop targeted strategies.

Oct/Nov 2008

33. During the 'Classification of Customers' stage of CRM implementation, what techniques are applied to the large repository of customer data?
(A) Manual data entry and verification
(B) Data mining and clustering techniques
(C) Customer surveys and focus groups
(D) Standard accounting and auditing procedures

Ans :

(B) Data mining and clustering techniques
In the classification stage, banks utilize the large repository of collected customer data. They clean this data and then apply advanced analytical techniques like data mining and clustering. These methods help to classify customers into meaningful segments based on parameters like profitability and product usage, which is essential for targeted marketing.

May/June 2006

34. What is the primary activity during the third stage of CRM implementation, "Interaction with the most Valued Customers"?
(A) Developing different marketing strategies and designing specific campaigns for different customer segments
(B) Sending out generic, mass-market advertisements to the bank's entire customer database
(C) Strategically reducing the number of communication channels available for customers to use
(D) Gathering the initial raw data about the bank's entire customer base for the first time

Ans :

(A) Developing different marketing strategies and designing specific campaigns for different customer segments
In the third stage, the focus shifts to engaging with the identified and classified customer segments, particularly the most valued ones. This involves using the 360-degree customer view to strategize and design different, specific marketing campaigns tailored to meet the unique needs and characteristics of each targeted segment, ensuring more effective interaction.

Oct/Nov 2017

35. What occurs during the final stage of the CRM implementation process, "Customisation of Bank's Products and Services"?
(A) The bank finalizes and standardizes a single product to be offered to all of its customers
(B) The bank ceases the collection of customer feedback in order to avoid potential data overload
(C) The bank designs mass customized products for target segments and launches relevant campaigns
(D) The bank significantly reduces its overall marketing budget as a primary cost-cutting measure

Ans :

(C) The bank designs mass customized products for target segments and launches relevant campaigns
The fourth and final stage involves using all the gathered intelligence—past usage data, intention forecasts, and segment profiles—to design mass customized products and services. Product managers select the right media mix and interaction points to launch targeted campaigns, completing the initial implementation cycle and setting up a feedback loop for future refinement.

May/June 2008

36. Which of the following is a benefit of an effective CRM implementation in retail banking?
(A) It generally decreases customer satisfaction while simultaneously increasing bank profitability

NODIA

(B) It significantly complicates the management of the bank's multi-delivery channels
(C) It actively reduces the cross-selling and up-selling potential available to the banks
(D) It helps banks to derive an increased share of wallet from the customer

Ans :

(D) It helps banks to derive an increased share of wallet from the customer
One of the key benefits of CRM is that it provides deep insights into customer needs and behaviors. This understanding allows banks to effectively cross-sell and up-sell relevant products and services, thereby capturing a larger portion of the customer's total financial business. This leads to an increased 'share of wallet' and enhanced profitability.

Oct/Nov 2013

37. How does CRM help banks to take on competition?
(A) By completely ignoring all competitor actions and focusing only on internal processes
(B) By deliberately offering products that are identical in every way to those of competitors
(C) As it results in more customer focus and better customer retention
(D) By systematically reducing the total number of services offered to all customers

Ans :

(C) As it results in more customer focus and better customer retention
In a competitive market, customer retention is a key challenge. CRM provides a significant advantage by enabling banks to be more customer-focused. By understanding and meeting customer needs better, banks can build stronger relationships, leading to increased customer loyalty and retention, which is a powerful defense against competitive pressures.

May/June 2015

38. What does CRM help a bank to understand on a dynamic basis through its structured database?
(A) The bank's quarterly financial performance
(B) The Customer Lifetime Value (CLV)
(C) The employee attrition rate
(D) The competitor's marketing strategies

Ans :

(B) The Customer Lifetime Value (CLV)
A structured CRM database, which is updated dynamically, allows a bank to track the entire history and potential future profitability of a customer. This enables the bank to understand and calculate the Customer Lifetime Value (CLV), which is a projection of the net profit attributed to the entire future relationship with a customer.

Oct/Nov 2012

39. Consider the following statements regarding the benefits of CRM:
1. It improves customer satisfaction and cross-selling potential.
2. It enhances the operational efficiencies of the banks.
3. It helps in understanding Customer Lifetime Value.
4. It enables seamless information flow across functions in delivery.

Which of the above statements are correct?
(A) 1 and 2 only
(B) 1, 3 and 4 only
(C) 2 and 4 only
(D) 1, 2, 3 and 4

Ans :

(D) 1, 2, 3 and 4
All four statements represent key benefits of implementing a CRM system in a bank. CRM is designed to improve customer satisfaction and cross-selling, enhance operational efficiency through process optimization, provide data for understanding Customer Lifetime Value, and ensure a seamless flow of information across different departments and functions for consistent service delivery.

May/June 2011

40. According to the analysis of CRM in Indian banking, on what basis do customers largely select their banks?
(A) The convenience of the bank's location to their homes or offices and the services offered
(B) The bank's international brand recognition and its presence in global financial markets
(C) The overall complexity and technical sophistication of the financial products being offered
(D) The size of the bank's annual advertising budget and its use of celebrity endorsements

Ans :

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Ans :

(A) Information Systems
This scenario directly addresses the implementation issue of 'Information Systems'. This step involves the analysis of the bank's existing legacy systems and IT infrastructure. The goal is to understand this environment so that the new CRM infrastructure can be appropriately customized to integrate with and reinforce, rather than simply replace, these existing systems.

May/June 2009

64. As per the diagram "Implementation Process of CRM in Banks" (Fig. 20.5), what happens immediately after "The composition and insertion of data into the organization database"?
(A) Appropriate data classification
(B) The collection of the analysis of data
(C) The dissemination of information to various components
(D) Input from channels like Internet and Telephone Marketing

Ans :

(B) The collection of the analysis of data
Following the flow in the diagram, data from various channels is classified and then inserted into the database. The very next step shown in the process flow is "The collection of the analysis of data." This means that once the data is in the database, the process of analyzing it begins, before it is disseminated to departments.

Oct/Nov 2011

65. In the four stages of CRM implementation, what is the main objective of the "Classification of Customers" stage?
(A) To gather the initial, raw customer data from all available channels for the very first time
(B) To develop strategies to target segments and design effective campaigns for higher returns
(C) To design unique, mass customized products for each individual customer in the database
(D) To interact directly with every single customer in order to get their immediate feedback

Ans :

(B) To develop strategies to target segments and design effective campaigns for higher returns
The purpose of classifying customers into segments based on profitability, usage rate, etc., is to enable the bank to move beyond a one-size-fits-all approach. This segmentation helps the bank to "develop different kinds of strategies to target the segments and design effective campaigns for generating higher returns from existing customers."

May/June 2010

66. Which benefit of CRM involves improving the bank's ability to offer services through various platforms like ATMs, internet, and mobile banking in a unified manner?
(A) Helps to manage multi-delivery channels in a better way
(B) Helps to understand Customer Lifetime Value
(C) Enhances the operational efficiencies of the banks
(D) Improves cross-selling of its products

Ans :

(A) Helps to manage multi-delivery channels in a better way
The text lists as a benefit that CRM "Helps to manage multi delivery channels in a better way to adopt and maintain uniform service standards across channels." This refers to the effective integration and management of both remote and physical channels to provide a consistent and high-quality customer experience, regardless of the platform used.

Oct/Nov 2024

67. The CRM analysis in the banking sector tries to find the relationship between four key elements that underline its significance. Which of the following is NOT one of those elements?
(A) Perception
(B) Satisfaction
(C) Profitability
(D) Commitment

Ans :

(C) Profitability
The text states, "it can be inferred that CRM tries to find out the relationship between perception and satisfaction, commitment and loyalty that underlines the significance in Indian Banking Sector." While profitability is an outcome of effective CRM, it is not one of the four interconnected customer-centric elements mentioned in this specific context of the analysis.

NODIA

(D) The Data Warehouse is designed to store data only for customers who are currently active with the bank

Ans :

(B) The Data Warehouse is continuously enriched and updated as relational marketing activities occur

The Data Warehouse is not a static, one-time creation. It is described as a 'living structure' because it is in a constant state of evolution. It is continuously enriched with new data and updated as the bank interacts with its customers and as relational marketing activities generate new information, ensuring its contents remain current and relevant.

Oct/Nov 2009

45. What technology or tool do CRM analysts use to issue complex SQL queries on the Data Warehouse for statistical analysis?

(A) Core Banking System (CBS)
(B) Automated Teller Machine (ATM) software
(C) On Line Application Programming (OLAP)
(D) Social Media Analytics platforms

Ans :

(C) On Line Application Programming (OLAP)

The text specifies that CRM analysts use OLAP (On Line Application Programming) tools, often in a web version, to perform complex analyses. This tool allows them to issue complex SQL (Structured Query Language) queries against the Data Warehouse or an Analytical Data Mart to conduct mono and bivariate statistical analysis on customer populations.

May/June 2023

46. How does the customization of offerings, enabled by CRM, indirectly affect customer satisfaction?

(A) By systematically increasing the price of all financial products and associated banking services
(B) By strategically reducing the total number of available product options for the customer to choose from
(C) By making the overall customer experience more variable, inconsistent, and therefore unpredictable
(D) By enhancing the perceived quality of products and services from the customer's viewpoint

Ans :

(D) By enhancing the perceived quality of products and services from the customer's viewpoint

CRM applications allow banks to accumulate and process customer information to discover patterns, which enables customization. This tailoring of offerings to individual tastes enhances the perceived quality of the products and services from the customer's perspective. Since perceived quality is a key determinant of customer satisfaction, CRM indirectly boosts satisfaction through this mechanism.

Oct/Nov 2018

47. Besides customization, how else do CRM applications enhance perceived quality and positively affect customer satisfaction?

(A) By enabling timely, accurate processing of orders and reducing variability in the consumption experience
(B) By introducing deliberate delays into the order processing system to ensure absolute accuracy
(C) By intentionally increasing the variability of the consumption experience to create excitement
(D) By making the process of customer account management more complex and less transparent

Ans :

(A) By enabling timely, accurate processing of orders and reducing variability in the consumption experience

CRM applications improve the backend processes, leading to timely and accurate processing of customer orders, requests, and ongoing account management. This efficiency, combined with a reduction in the variability of the consumption experience (i.e., making it more consistent and reliable), enhances the overall perceived quality, which in turn positively impacts customer satisfaction.

May/June 2007

48. What is one of the key reasons that training employees in CRM is considered important for banks?

(A) To train them exclusively on how to handle technical IT issues related to the CRM software

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(A) The convenience of the bank's location to their homes or offices and the services offered

The analysis finds that a primary factor for customers choosing a bank is convenience, specifically the proximity of the bank's location to their home or workplace. The relevance and quality of the services offered to meet their needs is another critical consideration, highlighting the importance of accessibility and practical utility in the customer's decision-making process.

Oct/Nov 2020

41. How have Private Banks traditionally viewed themselves in terms of customer centricity?

(A) As simple providers of standardized, mass-market services with little differentiation

(B) As institutions focusing primarily on rural banking and agricultural lending products

(C) As being exceedingly customer-centric, offering highly personalized services to High Net Worth Customers

(D) As technology laggards that have a very limited focus on overall customer experience

Ans :

(C) As being exceedingly customer-centric, offering highly personalized services to High Net Worth Customers

The text notes that Private Banks have traditionally positioned themselves as being highly customer-centric. Their focus has often been on providing what they believe to be highly personalized and premium services, particularly targeting the High Net Worth (HNW) customer segment, distinguishing themselves through this specialized service model.

May/June 2022

42. What is the role of an effective decision support system for CRM?

(A) To collect data from every touchpoint, consolidate it into a single view, and use it for profiling and segmentation

(B) To collect customer data from a single, pre-determined touchpoint, such as the call center only

(C) To maintain customer information in separate, isolated databases for each individual department

(D) To use the collected customer data solely for the purpose of generating annual financial reports

Ans :

(A) To collect data from every touchpoint, consolidate it into a single view, and use it for profiling and segmentation

An effective decision support system for CRM is designed to capture customer data from all touchpoints (e.g., branch, web, call center). It then consolidates this information to create a single, unified view of the customer. This comprehensive data is then used for critical activities like customer profiling, segmentation, cross-selling, and retention efforts.

Oct/Nov 2023

43. What is the function of Data Mining in supporting a bank's sales and service staff?

(A) It serves as a passive and static database that only holds historical customer information

(B) It restricts all access to customer information to the bank's senior management level only

(C) It is a tool used primarily for the auditing of past financial transactions for compliance

(D) It provides real-time, intelligent information on the customer to help develop customized offers

Ans :

(D) It provides real-time, intelligent information on the customer to help develop customized offers

Data mining is an active and intelligent process. It analyzes the vast amount of customer information stored in the data warehouse to uncover patterns and insights. This intelligence is then offered to sales and service staff, often in real time, to support them in developing and presenting customized offers that are relevant to the specific customer.

May/June 2016

44. The text describes the Data Warehouse as a 'living structure'. What does this imply?

(A) The Data Warehouse is built only once and is never subsequently changed, modified, or updated

(B) The Data Warehouse is continuously enriched and updated as relational marketing activities occur

(C) The Data Warehouse refers to the physical building where the bank's primary data servers are housed

NODIA

List-I (Feature)
P. Marketing Automation
Q. Sales Force Automation
R. Contact Center Automation
S. Geolocation Technology

List-II (Function)
1. Reduces tedious agent tasks using tools like pre-recorded audio.
2. Creates marketing campaigns based on customers' physical locations.
3. Automates repetitive tasks like sending marketing materials to leads.
4. Prevents duplicate efforts by tracking contacts between salespersons and customers.

(A) P-3, Q-4, R-1, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

Ans :

(A) P-3, Q-4, R-1, S-2
Marketing Automation automates repetitive marketing tasks (P-3). Sales Force Automation tracks contacts to prevent duplicate efforts (Q-4). Contact Center Automation reduces agent workload with tools like pre-recorded audio (R-1). Geolocation Technology enables location-based marketing campaigns (S-2). This matching correctly aligns each feature with its described function in the text.

Oct/Nov 2006

53. In the context of the shift to a buyer's market in banking services, what has become a tough challenge for banks?
(A) Finding enough technology to invest in
(B) Reducing the number of products offered
(C) Retaining existing customers and winning new ones
(D) Complying with basic regulatory norms

Ans :

(C) Retaining existing customers and winning new ones
The text states that with the shift to a buyer's market, where customers have more choices and power, the challenges of retaining existing customers and acquiring new ones have become significantly tougher for banks. This competitive pressure is a key driver for banks to adopt customer-centric strategies like CRM to build loyalty and attract business.

May/June 2021

54. What is the negative consequence of businesses managing different customer relationships with multiple, separate information systems?
(A) It naturally strengthens customer service and consistently increases the bank's sales potential
(B) It weakens customer service and ultimately reduces total sales potential
(C) It automatically creates a unified, comprehensive, 360-degree view of the customer
(D) It significantly reduces the bank's operational costs and simplifies overall data management

Ans :

(B) It weakens customer service and ultimately reduces total sales potential
When customer information is fragmented across multiple, disconnected systems, no single employee or department has a complete picture of the customer's history and needs. This fragmentation leads to inconsistent service, frustrating the customer and weakening the relationship. Ultimately, this siloed approach reduces the potential for cross-selling and up-selling, thus reducing total sales potential.

Oct/Nov 2010

55. Which of the following represents an INCORRECT pairing of a CRM objective and its method?
(A) Objective: Achieve life-time value from customers; Method: Use systematic and technology-oriented processes.
(B) Objective: Increase share of wallet; Method: Offer optimal products and services on a dynamic basis.
(C) Objective: Increase per-customer profitability; Method: Minimize response time to customer enquiries.
(D) Objective: Build long-term profitable relationships; Method: Focus marketing efforts only on new customers.

Ans :

(D) Objective: Build long-term profitable relationships; Method: Focus marketing efforts only on new customers.
Building long-term profitable relationships involves nurturing the entire customer base, especially existing, valuable customers, not just

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focusing on new ones. The CRM philosophy emphasizes retention and expansion of relationships with current customers as a key to profitability. The other pairs correctly link a CRM objective with a relevant method described in the text.

May/June 2005

56. A bank's CRM analysis reveals that a segment of its customers frequently uses high-cost branch services for simple transactions like balance inquiries. To improve operational efficiency, the bank's management decides to launch a targeted campaign encouraging this segment to use the bank's mobile app and ATMs. This strategy is an example of which dimension of customer optimization?

(A) Expansion of the customer relationship by shifting them to lower-cost channels
(B) Retention of Existing Customers
(C) Acquisition of New Customers
(D) Discontinuation of services for less profitable customers

Ans :

(A) Expansion of the customer relationship by shifting them to lower-cost channels
This case illustrates the 'expansion' dimension of customer optimization. The bank is not acquiring new customers or simply retaining them; it is actively managing the relationship to improve profitability. By encouraging the use of lower-cost digital channels for simple transactions, the bank reduces its cost-to-serve for this segment, thereby optimizing the value of these relationships.

Oct/Nov 2022

57. Identify the statement that is INCORRECT regarding the need for CRM in banks.

(A) The rise of NPAs in retail lending necessitates better customer tracking and recovery mechanisms.
(B) Intense competition in retail banking requires a strong focus on customer orientation to gain market share.
(C) A decline in the use of technology has forced banks to adopt CRM for manual processing.
(D) The increasing importance of fee-based income is a significant driver for adopting CRM to identify prospects.

Ans :

(C) A decline in the use of technology has forced banks to adopt CRM for manual processing.
The text clearly states that the 'Application of Technology' is a key reason for CRM adoption, not a decline in its use. Banks leverage technology like Core Banking Solutions, and CRM enables a structured approach to customer mining and cross-selling through this technology. The statement presents a scenario opposite to the one described.

NODIA

May/June 2018

58. Consider the following two statements:
Statement I: CRM is considered a compulsion for banks, not just an option, to achieve business synergies and resource optimization.
Statement II: The primary benefit of CRM is limited to product development and does not impact customer loyalty or brand equity.

(A) Statement I is correct and Statement II is incorrect.
(B) Both Statement I and Statement II are correct.
(C) Both Statement I and Statement II are incorrect.
(D) Statement I is incorrect and Statement II is correct.

Ans :

(A) Statement I is correct and Statement II is incorrect.
Statement I is correct; the text posits that CRM is a compulsion for banks to optimize resources and achieve synergies. Statement II is incorrect because the text explicitly mentions that CRM helps in "building and sustaining customer loyalty and brand equity" in addition to its role in product development and improving profitability.

Oct/Nov 2016

59. What is the twofold nature of value dimensions when banks aim to derive more value from employees?

(A) Increased salary and better incentives
(B) Higher productivity and lower absenteeism
(C) Marketing skills and operational skills
(D) Employee value and customer value

Ans :

(D) Employee value and customer value
The text specifies that the value dimensions are twofold. 'Employee value' is enhanced by deploying them in more productive roles like marketing and cross-selling. This directly leads

to an increase in 'customer value', which is the derivative of this enhanced employee output, reflected in higher per-customer profitability through greater product uptake.

May/June 2014

60. "Some private banks are experiencing huge delinquencies in this segment which made them to switch over their strategies from aggressive to the watch mode and also shrinking their retail asset expansion. Some public sector banks also experiencing rising NPAs mainly in the Home Loans segment due to defaults and delinquencies."
Based on the source, what can be inferred about NPAs in retail banking?
(A) NPAs are a problem that is found exclusively within private sector banks in the unsecured loan segment
(B) Both private and public sector banks face NPA challenges, but potentially in different retail asset segments
(C) Public sector banks are completely immune to the risks of NPAs in their retail loan portfolios
(D) The single primary cause of NPAs across all banks is an overly aggressive retail asset expansion

Ans :

(B) Both private and public sector banks face NPA challenges, but potentially in different retail asset segments
The source indicates that private banks face delinquencies in segments like credit cards/ personal loans, causing them to adopt a "watch mode." It also explicitly states that some public sector banks are experiencing rising NPAs, particularly in the Home Loans segment. This shows that both types of banks face NPA issues, but the concentration of risk can differ.

Oct/Nov 2007

61. Which of the following is NOT a main component of CRM as described in the text?
(A) Building and managing customer relationships through marketing.
(B) Observing relationships as they mature through distinct phases.
(C) Recognizing that the distribution of value of a relationship to the firm is homogenous.
(D) Managing relationships at each stage of their maturity.

Ans :

(C) Recognizing that the distribution of value of a relationship to the firm is homogenous.
A main component of CRM is explicitly stated as "recognizing that the distribution of value of a relationship to the firm is not homogenous." This means that different customers and relationships provide different levels of value to the bank, and CRM helps to identify and manage them accordingly. The statement suggests the opposite.

May/June 2025

62. What is the key requirement for the customization of a CRM solution for a particular bank, according to the implementation process?
(A) The immediate availability of a large and unallocated marketing budget for the project
(B) The total number of physical branches that the bank currently operates across the nation
(C) The bank's most recent ranking in national and international customer satisfaction surveys
(D) The orientation and description of the bank's current business processes

Ans :

(D) The orientation and description of the bank's current business processes
The text states that the evaluation of current business processes is essential for implementation. Specifically, "The orientation and the description of the business processes is a key requirement for the customisation of the CRM solution for the particular bank." This analysis dictates how the CRM system must be tailored to the bank's unique operational framework.

Oct/Nov 2019

63. A bank plans to implement a new CRM system. The IT department's primary task is to analyze the existing legacy information systems and the current IT infrastructure. They need to ensure the new CRM system can be customized to integrate smoothly with the old systems. This task corresponds to which key implementation issue?
(A) Information Systems
(B) Business Processes
(C) Information Processes
(D) Internal Organisational Culture

NODIA

replacement. Statements 2 and 3 are correct. The analysis and restructuring of information processes are crucial, and the success also hinges on the homogenization of CRM within the organizational culture.

May/June 2013

72. Which type of retail banking products did some private banks shrink their expansion of, after experiencing huge delinquencies?
(A) Retail asset expansion in general
(B) Home Loans
(C) Gold Loans
(D) Educational Loans

Ans :

(A) Retail asset expansion in general
The text states that after facing huge delinquencies in sensitive segments, some private banks switched from an aggressive strategy to a "watch mode" and were also "shrinking their retail asset expansion." This indicates a broad-based slowdown or contraction of their overall retail lending portfolio, not just a single product line, to manage risk.

Oct/Nov 2021

73. What is the ultimate goal of automating repetitive marketing tasks through CRM?
(A) To reduce the size of the marketing team
(B) To gather data for annual reports
(C) To turn a sales lead into a full-fledged customer
(D) To test the functionality of the CRM system

Ans :

(C) To turn a sales lead into a full-fledged customer
The text describes marketing automation as a way to enhance marketing efforts at various lifecycle points. For example, it automatically sends marketing materials to sales prospects. The stated "goal of turning a sales lead into a full-fledged customer" clarifies that the purpose of this automation is lead conversion and customer acquisition.

May/June 2024

74. A bank is facing declining Net Interest Margins. To boost its bottom line, the management decides to aggressively market third-party life insurance and mutual fund products. The CRM team is tasked with analyzing the customer database to find clients with high savings account balances and a history of long-term investments. This strategy primarily addresses which 'Why CRM?' driver?
(A) Increasing Importance of Fee Based Income
(B) Need to increase operational efficiencies
(C) Rising NPAs
(D) Delivery Channel Efficacy

Ans :

(A) Increasing Importance of Fee Based Income
This case directly illustrates the bank's response to declining Net Interest Margins by focusing on fee-based income. The use of CRM to identify potential customers for third-party products like insurance and mutual funds is a classic example of how banks leverage customer data to generate non-interest revenue and improve profitability in a competitive environment.

Oct/Nov 2008

75. What is the relationship between 'perceived quality' and 'customer satisfaction'?
(A) They are independent concepts with no direct relationship.
(B) Higher customer satisfaction leads to lower perceived quality.
(C) Perceived quality is only relevant for new customers, while satisfaction is for existing ones.
(D) Higher perceived quality is a determinant of higher customer satisfaction.

Ans :

(D) Higher perceived quality is a determinant of higher customer satisfaction.
The text explicitly states that "because perceived quality is a determinant of customer satisfaction, it follows that CRM applications indirectly affect customer satisfaction." This means that when a customer perceives the quality of a bank's products and services to be high (e.g., through customization and reliability), their satisfaction level increases as a direct consequence.

May/June 2006

76. Which of the following is an example of 'upselling' that can be facilitated by CRM?
(A) Persuading a new walk-in prospect to open a basic, no-frills savings account
(B) Selling a completely separate third-party insurance product to an existing loan customer

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May/June 2017

68. Assertion (A): The implementation of a CRM approach is likely to have an effect on customer satisfaction.
Reason (R): CRM applications help banks customize their offerings to suit the individual tastes of their customers, which enhances the perceived quality of products and services.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is a correct statement. Reason (R) provides a valid explanation for why this is true. By enabling customization, CRM enhances the perceived quality of offerings from the customer's viewpoint. Since perceived quality is a direct determinant of customer satisfaction, (R) correctly explains the mechanism through which CRM impacts satisfaction, as stated in (A).

Oct/Nov 2005

69. In addition to improving customer-facing metrics, what internal benefits does CRM provide?
(A) It decreases employee morale but increases productivity.
(B) It reduces the need for in-depth customer knowledge among employees.
(C) It enhances productivity and creates superior employee morale.
(D) It isolates employees from customer feedback and complaints.

Ans :

(C) It enhances productivity and creates superior employee morale.
The text states that CRM has a positive impact on the internal environment as well. It "enhances productivity and creates superior employee's morale." By providing better tools and clearer information, CRM can empower employees, making their work more effective and satisfying, which contributes to higher morale alongside increased productivity and better customer service.

May/June 2020

70. Why must even departments like finance and legal understand how to manage and build relationships with customers?
(A) Because they are held directly responsible for meeting the bank's sales and marketing targets
(B) To ensure a consistent, customer-centric approach across the entire organization
(C) So they are equipped to offer specialized financial and legal advice directly to bank customers
(D) Because CRM training is a mandatory compliance requirement for all bank employees

Ans :

(B) To ensure a consistent, customer-centric approach across the entire organization
For CRM to be truly effective, the customer-centric philosophy must permeate the entire organization, not just the front-line staff. When departments like finance and legal also understand the importance of customer relationships, it ensures that all internal processes and decisions are made with the customer in mind, leading to a more consistent and positive overall experience.

Oct/Nov 2015

71. Consider the following statements about the implementation of CRM in banks:
1. The process is straightforward due to the uniform nature of technology in all banks.
2. Analysis of existing information processes and their restructuring is essential.
3. The organizational culture must adapt and become responsive to the CRM initiative.
4. The focus of implementation is on the complete replacement of existing IT infrastructure.

Which of the statements are correct?
(A) 1 and 4 only
(B) 1, 2, and 3 only
(C) 2, 3, and 4 only
(D) 2 and 3 only

Ans :

(D) 2 and 3 only
Statement 1 is incorrect; implementation is tough due to differing structures. Statement 4 is incorrect; the focus is on reinforcement, not

NODIA

(B) To educate them to value customer relationships and understand existing customer profiles
(C) To teach them specific techniques for avoiding all direct, personal interaction with customers
(D) To ensure all employees, including finance and legal, focus only on their specific departmental tasks

Ans :

(B) To educate them to value customer relationships and understand existing customer profiles
Training is crucial to instill a CRM-centric culture. Employees, especially customer service representatives, must be educated to understand the importance of and value customer relationships. The training should also equip them with the knowledge to understand different customer profiles, enabling them to build and manage strong customer-brand relationships effectively across all departments.

Oct/Nov 2025

49. Assertion (A): Banks that do not have well-designed and logical processes cannot be successful in achieving their goals.
Reason (R): Applying new technologies like CRM systems requires changes in the organization's infrastructure and deployment of new technologies like business rules and databases.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
Assertion (A) is a general business principle stating that well-designed processes are essential for success. Reason (R) correctly states that implementing new technologies like CRM necessitates infrastructural and technological changes. While both statements are true and related to business improvement, (R) explains the requirements of technology adoption, not why poorly designed processes lead to failure.

May/June 2012

50. According to the 'Let Us Sum Up' section, what is the fundamental nature of Customer Relationship Management (CRM)?
(A) A process of having a 360-degree view of customers and dynamically tracking their requirements
(B) A short-term marketing strategy that is focused exclusively on acquiring new customers
(C) A system that increases per-customer profitability primarily by reducing service quality
(D) A specialized software tool used exclusively by the marketing department for advertising

Ans :

(A) A process of having a 360-degree view of customers and dynamically tracking their requirements
The summary defines CRM as fundamentally having a 360-degree view of the customer's profile. This involves dynamically tracking their requirements, offering matching products and services, cross-selling relevant products to their changing needs, and ultimately aiming to keep them satisfied over the long term, encapsulating the holistic and continuous nature of the CRM process.

Oct/Nov 2014

51. Which of the following is NOT listed as a Keyword associated with the chapter?
(A) Customer Lifetime Value
(B) Share of Wallet
(C) Net Interest Margin
(D) Delivery Channel Efficacy

Ans :

(C) Net Interest Margin
The keywords listed are Customer Relationship Management, Operational Efficiencies, Delivery Channel Efficacy, Cross Selling, Customer Lifetime Value, Share of Wallet, and Improving per customer profitability. While Net Interest Margin is discussed in the text as a driver for seeking fee-based income, it is not included in the final list of key terms for the chapter.

May/June 2019

52. Match the CRM software feature in List-I with its primary function in List-II.

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(C) Assisting an existing customer with resetting their forgotten internet banking password
(D) Convincing a credit card holder to upgrade to a premium card with more benefits and a higher fee

Ans :

(D) Convincing a credit card holder to upgrade to a premium card with more benefits and a higher fee
Upselling involves encouraging a customer to purchase a more expensive or upgraded version of a product they already have or are considering. Convincing a customer to move from a standard to a premium credit card is a classic example. CRM facilitates this by identifying customers whose profile suggests they would be eligible for and interested in the upgrade.

Oct/Nov 2017

77. The successful implementation of CRM depends on the homogenization of the CRM philosophy within the organization's systems and its responsiveness. This relates to which key implementation issue?
(A) Business Processes
(B) Information Systems
(C) Internal Organisational Culture
(D) Information Processes

Ans :

(C) Internal Organisational Culture
This statement refers to the non-technical, human dimension of CRM implementation. The success of the system lies in how well it is integrated into the company's culture ("homogenization") and how responsive the organization and its people are to using it to develop customer relationships. This is the essence of the 'Internal Organisational Culture' issue.

May/June 2008

78. Match the stage of CRM implementation in List-I with the key activity in List-II.
List-I (Stage)
P. Identification of Customers
Q. Classification of Customers
R. Interaction with Valued Customers
S. Customisation of Products
List-II (Activity)
1. Designing specific campaigns for segmented groups.
2. Designing mass customized products using past usage data.
3. Building a repository of data about who buys what.
4. Applying data mining to group customers by profitability.
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-4, R-1, S-2
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-3, R-2, S-1

Ans :

(B) P-3, Q-4, R-1, S-2
Identification (P) involves building the initial data repository (3). Classification (Q) uses data mining to segment customers (4). Interaction (R) involves designing targeted campaigns for these segments (1). Customisation (S) uses the insights gained to design tailored products and launch them (2). This matching correctly follows the four-stage implementation process.

Oct/Nov 2013

79. What is a key finding from the literature survey on CRM in the Indian Banking Sector?
(A) CRM helps to understand the link between perception, satisfaction, commitment, and loyalty
(B) Indian customers choose their banks solely based on the offered interest rates for savings
(C) There is no demonstrable relationship between a customer's satisfaction and their loyalty to a bank
(D) Private banks in India have not focused on customer-centricity in their operations at all

Ans :

(A) CRM helps to understand the link between perception, satisfaction, commitment, and loyalty
The text states that through literature survey and data analysis, "it can be inferred that CRM tries to find out the relationship between perception and satisfaction, commitment and loyalty that underlines the significance in Indian Banking Sector." This shows that a key value of CRM is in understanding these crucial psychological drivers of customer behavior.

May/June 2015

80. "The banking industry is much further along than other industries in recognizing the value of CRM and implementing decision support systems to support CRM. Though most of the

NODIA

banks have already focused on tactical point solutions, they're ready for transition toward strategic, enterprise-wide CRM initiatives that cross major business lines."

What is the current state of CRM adoption in the banking industry according to this source?

(A) Banks are significantly lagging behind most other industries in the adoption of CRM technology

(B) Banks have mostly used tactical, isolated CRM solutions but are now ready for a more strategic, integrated approach

(C) Banks have successfully implemented strategic, enterprise-wide CRM initiatives from the very beginning

(D) Banks have completely avoided using CRM systems in favor of more traditional marketing methods

Ans :

(B) Banks have mostly used tactical, isolated CRM solutions but are now ready for a more strategic, integrated approach

The source indicates that while banks are advanced in recognizing CRM's value, their initial focus has been on "tactical point solutions" (i.e., smaller, specific applications). It explicitly states they are now "ready for transition toward strategic, enterprise-wide CRM initiatives," showing a maturation from isolated solutions to a more holistic, integrated strategy.

Oct/Nov 2012

81. Why is a robust customer database considered the "backbone of CRM"?

(A) Because it is by far the most expensive and resource-intensive component of the entire CRM system

(B) Because all meaningful strategies and decisions stem from the accuracy and completeness of this data

(C) Because it is the only part of the CRM system that has any direct interaction with the customer

(D) Because it is a system that is managed directly by the most senior executives in the bank

Ans :

(B) Because all meaningful strategies and decisions stem from the accuracy and completeness of this data

The text emphasizes that robust customer data is the backbone because "CRM practice without robust customer data base will not yield the desired results." All subsequent activities—profiling, segmentation, campaign design, and strategic decisions—are entirely dependent on the quality and accuracy of the underlying data. Flawed data leads to flawed outcomes.

May/June 2011

82. What is the primary purpose of contact center automation in a CRM environment?

(A) To reduce tedious aspects of an agent's job and simplify service processes

(B) To intentionally increase the average duration of calls to build better customer rapport

(C) To completely replace all human contact center agents with artificial intelligence chatbots

(D) To ensure that all incoming customer queries are handled exclusively via email communication

Ans :

(A) To reduce tedious aspects of an agent's job and simplify service processes

The text states that contact center automation is "Designed to reduce tedious aspects of a contact center agent's job." It achieves this through tools like pre-recorded audio for common problems and software integration that simplifies processes, ultimately aiming to cut down call times and make the agent's role more efficient and focused on complex issues.

Oct/Nov 2020

83. A bank's CRM system uses a customer's smartphone GPS data to send a push notification about a special offer on a personal loan when the customer is near a partner car dealership. This is an application of which CRM software feature?

(A) Marketing Automation

(B) Sales Force Automation

(C) Geolocation technology or location-based services

(D) Contact Center Automation

Ans :

(C) Geolocation technology or location-based services

This scenario is a direct application of geolocation technology. The CRM system is using the customer's real-time physical location data to

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trigger a relevant, location-specific marketing message. This integration with location-based GPS information to create geographic marketing campaigns is the defining characteristic of this particular feature.

May/June 2022

84. A bank's mechanical view of customer relationships, based only on demographic data and profitability tiers, is a sign of what belief?

(A) That customers are primarily seen as humans who are looking for personalized interactions
(B) That a customer's demographic data is considered irrelevant for modern banking strategies
(C) That the practice of using profitability tiers to segment customers should be abolished
(D) That customers are still resources that can be used for up-sell or cross-sell opportunities

Ans :

(D) That customers are still resources that can be used for up-sell or cross-sell opportunities
The text contrasts a purely mechanical view (demographics, profitability) with a more human-centric one. It states that this mechanical approach is a sign that banks still view customers as resources for up-selling or cross-selling, rather than as "humans looking for interesting and personalized interactions." This highlights a potential pitfall in CRM implementation.

Oct/Nov 2023

85. What is the consequence of feedback from customers after a CRM campaign is launched?

(A) It signals the absolute end of the CRM process for that particular customer segment
(B) It is generally ignored by the bank in order to maintain the stability of the database
(C) It provides a new set of customer data that helps in refining future strategy
(D) It is used exclusively to generate high-level complaints reports for senior management

Ans :

(C) It provides a new set of customer data that helps in refining future strategy
The CRM process is cyclical. The text explains that "Feedback from the customers will ring back a new set of customer data, which will help in refining the strategy further to target the segment with profitable product propositions." This feedback loop is essential for continuous learning and improvement of the CRM strategy.

May/June 2016

86. Which statement accurately reflects the role of technology in retail banking according to the chapter?

(A) Technology is considered separable from retail banking and is therefore used very sparingly
(B) Technology like CBS and Mobile Banking are leveraged to maximize business through customer mining and cross-selling
(C) The main purpose of technology is to reduce all direct communication with every customer
(D) Banks are actively moving away from technology toward a more traditional, paper-based system

Ans :

(B) Technology like CBS and Mobile Banking are leveraged to maximize business through customer mining and cross-selling
The text states that "Technology is inseparable from retail banking" and that banks leverage it to "maximize business through a structured approach to customer mining and cross selling." CRM solutions are the enablers of this process, demonstrating that technology is a core strategic tool for business growth in modern retail banking.

Oct/Nov 2009

87. Consider the following statements regarding the impact of CRM on customer satisfaction:

1. CRM helps customize offerings, which enhances perceived quality.
2. CRM enables timely and accurate processing of customer requests.
3. CRM increases the variability of the consumption experience.

Which of the above statements are correct?

(A) 1 and 3 only
(B) 2 and 3 only
(C) 1, 2 and 3
(D) 1 and 2 only

Ans :

(D) 1 and 2 only
Statements 1 and 2 are correct. CRM enhances perceived quality through customization and also improves it through timely and accurate processing. Statement 3 is incorrect; the text

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states that CRM helps to reduce the variability of the consumption experience, making it more consistent and reliable, which is a positive factor for satisfaction.

May/June 2023

88. A bank implements a CRM system. After six months, the Head of Retail Banking observes that while customer data is being collected, the front-line staff still operate in departmental silos and are not using the unified customer view to offer consistent service. The expected improvements in customer retention have not materialized. Which key implementation issue has likely been overlooked?
(A) Internal Organisational Culture
(B) Business Processes
(C) Information Systems
(D) Information Processes

Ans :

(A) Internal Organisational Culture
This case highlights a failure in the human and organizational aspect of CRM. The technology (Information System) is in place, but the staff's behavior and the organizational structure have not adapted. The lack of "homogenization of the same in the organization systems" and responsiveness from the staff points directly to a failure in addressing the Internal Organisational Culture.

Oct/Nov 2018

89. Why is a '360-degree view' of the customer a central concept in CRM?
(A) It allows the bank to secretly monitor the customer's online activities on competitor websites
(B) It refers to the specific physical layout of the bank branch, which is designed to be circular
(C) It provides a complete and unified understanding of the customer across all touchpoints and interactions
(D) It is simply a popular marketing term that has no real practical application in modern banking

Ans :

(C) It provides a complete and unified understanding of the customer across all touchpoints and interactions
The '360-degree view' is a core CRM concept representing a holistic, all-encompassing profile of the customer. It integrates data from every interaction point—branch visits, web activity, call center history, products held—into a single record, enabling any employee to have a complete understanding of the customer's relationship with the bank.

May/June 2007

90. The process of dynamically tracking customer information to design new products and services to meet their changing needs is a stage of which initiative?
(A) A CRM initiative
(B) A regulatory audit
(C) An internal HR policy review
(D) A cost-cutting program

Ans :

(A) A CRM initiative
The text explicitly lists "Tracking the customer information on a dynamic basis to design new products and services to meet the changing dynamics of the customers" as one of the stages involved in a CRM initiative. This proactive, data-driven approach to product development is a hallmark of a mature CRM strategy.

Oct/Nov 2025

91. Which of the following best describes the information that CRM systems can compile about a customer?
(A) Only the customer's full name and their primary bank account number
(B) Personal information, purchase history, buying preferences, and concerns
(C) Only the complete transaction history associated with their debit and credit cards
(D) Only the information that was provided directly by the customer through the bank's website

Ans :

(B) Personal information, purchase history, buying preferences, and concerns
CRM systems are designed to create a comprehensive profile. Beyond basic identity, they can give details on a customer's personal information, their complete purchase history with the bank, their inferred buying preferences, and even specific concerns they may have raised during service interactions, providing a holistic view for better service.

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May/June 2012

92. What is the primary risk associated with retail products like Credit Cards and Personal Loans?
(A) They have extremely low interest rates, which makes them inherently unprofitable for the bank
(B) They are basically unsecured and thus more susceptible to becoming NPAs
(C) The overall customer demand for these specific types of products is consistently declining
(D) They require a large amount of physical documentation, which increases operational costs

Ans :

(B) They are basically unsecured and thus more susceptible to becoming NPAs
The text clearly identifies the inherent risk of these products by stating they are "basically unsecured and are susceptible to become NPAs." Unlike home or auto loans which are backed by a physical asset, the lack of collateral for personal loans and credit cards increases the bank's potential loss if the borrower defaults.

Oct/Nov 2014

93. What is the role of the CRM group after analyzing results obtained from the data warehouse?
(A) To securely archive the analyzed data and then wait for a new set of instructions
(B) To report the analytical findings directly to the relevant regulatory authorities only
(C) To design and implement action plans such as campaigns, promotions, and special marketing initiatives
(D) To delete the underlying raw data in order to make more space in the data warehouse

Ans :

(C) To design and implement action plans such as campaigns, promotions, and special marketing initiatives
The analysis of data is not the final step. The text explains that the "CRM group analyzes results obtained and designs action plans, such as campaigns, promotions, special marketing initiatives, etc." These plans are then implemented through various channels to reach customers, making the data analysis actionable and driving business results.

May/June 2019

94. "CRM applications also enable firms to provide timely, accurate processing of customer orders and requests and the ongoing management of customer accounts. Both an improved ability to customize and a reduced variability of the consumption experience enhance perceived quality, which in turn positively affects customer satisfaction."
According to the source, which two factors directly enhance perceived quality?
(A) Increased variability and delayed processing
(B) Standardized offerings and complex account management
(C) Reduced customization and increased processing time
(D) Improved customization and reduced variability

Ans :

(D) Improved customization and reduced variability
The source explicitly connects two key improvements to enhanced perceived quality. It states that "Both an improved ability to customize and a reduced variability of the consumption experience enhance perceived quality." This means that tailoring services to the individual and making the service experience consistent and reliable are what improve the customer's perception of quality.

Oct/Nov 2006

95. In which areas have banks trained their employees to help bolster strong customer relationships?
(A) In Social psychology and the social sciences
(B) In advanced mathematics and statistics only
(C) In software coding and database administration
(D) In physical security and fraud detection

Ans :

(A) In Social psychology and the social sciences
To move beyond transactional interactions, banks have implemented training in fields that help understand human behavior and relationships. The text mentions that employees have been "trained in Social psychology and the social sciences to help bolster strong customer relationships," equipping them with the soft skills needed for effective relationship management.

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CHAPTER 21

Service Standards for Retail Banking

Oct/Nov 2016

1. In November 2003, the Reserve Bank of India constituted a committee to address issues related to the availability of adequate banking services to the common people. Who was the chairman of this committee?

(A) Dr. Y.V. Reddy
(B) Shri S.S. Tarapore
(C) Dr. K.C. Chakrabarty
(D) Shri H.R. Khan

Ans :

(B) Shri S.S. Tarapore
The committee on "Procedure & Performance Audit of Public Services" was established by the RBI in November 2003 under the chairmanship of Shri S.S. Tarapore, a former Deputy Governor of the RBI. The committee's mandate was to suggest steps for improving the quality of banking services for individual customers and address factors inhibiting best customer service.

May/June 2021

2. The committee chaired by Shri S.S. Tarapore identified an institutional gap in the banking sector. What was this gap?

(A) The absence of a body to measure bank performance against a benchmark of best practices.
(B) The lack of a unified, centralized grievance redressal mechanism applicable to all banks.
(C) The non-existence of a specific, dedicated code of conduct for lending to micro and small enterprises.
(D) The absence of a mandatory, legally enforceable code for governing emerging digital banking transactions.

Ans :

(A) The absence of a body to measure bank performance against a benchmark of best practices.
The committee's in-depth study concluded that there was an institutional gap for measuring the performance of banks against a benchmark that reflected the best practices, which were referred to as a "Code and Standards". This finding led directly to the recommendation of establishing the Banking Codes and Standards Board of India (BCSBI) to fill this void.

Oct/Nov 2009

3. Based on the recommendation of the Tarapore Committee, on which date was the Banking Codes and Standards Board of India (BCSBI) established?

(A) 1st July 2006
(B) 25th August 2020
(C) 18th February 2006
(D) 1st November 2003

Ans :

(C) 18th February 2006
Following the recommendation of the committee, the Banking Codes and Standards Board of India (BCSBI) was set up on 18th February 2006. It was established as a collaborative effort between the Reserve Bank of India and various banks to promote fair and transparent banking practices through the adoption of voluntary codes of conduct.

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May/June 2013

4. Which of the following statements correctly describes the nature of the BCSBI Code?

(A) It is a mandatory set of regulations that replaces all previous RBI instructions on customer service.
(B) It is a legal framework for the immediate redressal of individual customer grievances.
(C) It is a supervisory document issued exclusively by the Indian Banks' Association (IBA).
(D) It is a voluntary Code that sets minimum standards of banking practices for individual customers.

Ans :

(D) It is a voluntary Code that sets minimum standards of banking practices for individual customers.

(D) 1, 2, 3, and 4 only

Ans :

(D) 1, 2, 3, and 4 only
The text lists seven reasons for CRM implementation. The first four statements are directly from this list. Statement 5, “Declining use of technology in banking,” is incorrect. The text actually lists “Application of Technology” as a reason for CRM, indicating an increasing, not declining, use of technology in the sector.

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May/June 2021

96. A bank's CRM system identifies a high-value customer who has a large salary account and a home loan but no other investments with the bank. The system flags this customer as a high-potential lead for the wealth management team to offer mutual funds and portfolio management services. This activity is a prime example of:
(A) Customer acquisition
(B) Cross-selling
(C) Operational efficiency
(D) NPA management

Ans :

(B) Cross-selling
Cross-selling is the practice of selling an additional, different product or service to an existing customer. In this case, the bank is using the customer's existing relationship (salary account, home loan) as a basis to offer new, unrelated products (mutual funds). CRM is the tool that enables the identification of this cross-selling opportunity.

Oct/Nov 2010

97. What is the primary goal when a bank defines its business goals and evaluates its CRM processes?
(A) To maintain the bank's current business processes exactly as they are without change
(B) To improve and expand the processes to fit their needs
(C) To eliminate as many business processes as possible as a primary cost-cutting measure
(D) To outsource all of the bank's core business processes to a qualified third-party vendor

Ans :

(B) To improve and expand the processes to fit their needs
The text suggests that reviewing processes is a dynamic activity. Banks should "define their business goals and evaluate their CRM processes to improve and expand to fit their needs." This implies a continuous cycle of evaluation and refinement to ensure that the bank's processes are logical, well-designed, and aligned with its strategic objectives.

May/June 2005

98. Which of the following statements best summarizes the purpose of CRM as described in the 'Let Us Sum Up' section?
(A) To increase the share of wallet and enhance the per-customer profitability of banks
(B) To significantly increase the total number of physical bank branches operating in the country
(C) To focus the bank's efforts solely on the technological aspects of the implementation
(D) To strategically reduce the total number of financial products offered by the bank

Ans :

(A) To increase the share of wallet and enhance the per-customer profitability of banks
The summary section explicitly states, "The purpose of CRM is to increase the share of wallet of the customer with the banks' services and increase the per-customer profitability of banks." This clearly defines the ultimate business objectives of implementing a CRM strategy: deepening the financial relationship and making each customer relationship more profitable.

NODIA

Oct/Nov 2022

99. The implementation of OLAP analyses by means of Business Object and complex SQL queries is associated with which CRM component?
(A) Delivery Channel Efficacy
(B) Contact center automation
(C) Data Warehouse and Data Mining
(D) Geolocation technology

Ans :

(C) Data Warehouse and Data Mining
The text describes the use of OLAP and SQL queries as the method through which "CRM analysts use this tool to issue complex...queries on the Data Warehouse or on the Analytical Data mart." This activity is central to the data mining process, where analysts probe the data warehouse to extract meaningful statistics and insights.

May/June 2018

100. Consider the following reasons given for implementing CRM in retail banking:
1. Need to increase operational efficiencies.
2. Increasing Competition in retail banking.
3. Rising NPAs.
4. Increasing Importance of Fee Based Income.
5. Declining use of technology in banking.

Which of the above reasons are correct?
(A) 1, 2, 3, and 5 only
(B) 2, 3, 4, and 5 only
(C) 1, 3, 4, and 5 only

The BCSBI Code is a voluntary set of standards that banks agree to follow when dealing with individual customers. It does not replace or supersede regulatory instructions from the RBI but rather complements them by setting minimum benchmarks for fair practices. It is not a forum for direct grievance redressal, which remains a separate function.

Oct/Nov 2025

5. According to the RBI Annual Report dated 25th August 2020, what decision was made concerning the Banking Codes and Standards Board of India (BCSBI)?

(A) To expand its powers to include punitive action against non-compliant banks.
(B) To make its codes mandatory for all scheduled commercial banks.
(C) To dissolve the BCSBI as an independent and autonomous body.
(D) To merge its functions with the Indian Banks' Association (IBA).

Ans :

(C) To dissolve the BCSBI as an independent and autonomous body.
The Reserve Bank of India, in its Annual Report of 25th August 2020, announced its decision to dissolve the Banking Codes and Standards Board of India (BCSBI). The BCSBI was originally set up in February 2006 as an independent body to formulate voluntary codes of conduct for banks to ensure the fair treatment of customers.

May/June 2007

6. Which of the following is identified as one of the main aims and objects of forming BCSBI?

(A) To act as the primary appellate authority for customer complaints against banks.
(B) To function as an independent watchdog to monitor adherence to voluntarily adopted codes.
(C) To conduct statutory audits of all member bank branches annually.
(D) To fix interest rates for all retail loan and deposit products offered by member banks.

Ans :

(B) To function as an independent watchdog to monitor adherence to voluntarily adopted codes.
A primary objective of BCSBI was to serve as an independent and autonomous watchdog. Its role was to monitor and ensure that the banking codes and standards, which were voluntarily adopted by member banks, were adhered to in true spirit during the delivery of services to customers, thereby fulfilling the promises made to them.

Oct/Nov 2018

7. Which of the following statements is INCORRECT regarding the aims and objects of BCSBI?

(A) To plan, evolve, and publish voluntary comprehensive Codes and Standards for banks.
(B) To enter into covenants with banks and train their employees on the Banking Codes.
(C) To conduct and undertake research on Codes and Standards in vogue within and outside India.
(D) To impose financial penalties on banks for non-compliance with the codes.

Ans :

(D) To impose financial penalties on banks for non-compliance with the codes.
While BCSBI's role was to monitor compliance and publish ratings, it was not empowered to impose direct financial penalties. Its main aims included developing voluntary codes, functioning as a watchdog, conducting research, and training bank employees. The primary enforcement mechanism was the public disclosure of compliance ratings, which could impact a bank's reputation.

May/June 2023

8. Besides its main aims, BCSBI had several other objectives. Which of the following falls under these "Other Aims and Objects"?

(A) To publish journals, reports, and papers to promote its objectives.
(B) To set the mandatory Cash Reserve Ratio (CRR) for all member banks.
(C) To approve the final appointment of bank CEOs and executive board members.
(D) To act as the primary regulator for foreign exchange transactions for member banks.

Ans :

(A) To publish journals, reports, and papers to promote its objectives.
Among the other aims and objects of the BCSBI was the publication of various materials like journals, reports, pamphlets, and research papers. This was intended to be in furtherance of its core objective of promoting awareness and

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understanding of the codes and standards among banks, customers, and the public, contributing to a more informed banking environment.

Oct/Nov 2014

9. The Code of Banks' Commitment, which formed a covenant between BCSBI and member banks, was based on a standard document prepared by which body?
(A) Reserve Bank of India (RBI)
(B) The Ministry of Finance, Government of India
(C) A working group of the Indian Banks' Association (IBA)
(D) The S.S. Tarapore Committee

Ans :

(C) A working group of the Indian Banks' Association (IBA)
The comprehensive Bankers' Fair Practice Code, which was prepared by a working group of the Indian Banks' Association (IBA), was used as a standard by BCSBI. This document formed the basis of the covenant between BCSBI and its member banks, binding them to the implementation of the Code and supervision by the Board.

May/June 2012

10. BCSBI brought out two distinct codes for member banks to follow. What are these two codes?
(A) Code of Bank's Commitment to Customers and Code of Bank's Commitment to Micro and Small Enterprises.
(B) Code of Commitment to Individual Customers and Code of Commitment to Corporate Clients.
(C) Code for Deposit Accounts and Code for Lending Practices.
(D) Code of Digital Banking and Code of Branch Banking.

Ans :

(A) Code of Bank's Commitment to Customers and Code of Bank's Commitment to Micro and Small Enterprises.
The Banking Codes and Standards Board of India (BCSBI) was responsible for introducing two specific codes. The first was the 'Code of Bank's Commitment to Customers', aimed at individual retail customers, and the second was the 'Code of Bank's Commitment to Micro and Small Enterprises', catering specifically to the MSE sector.

Oct/Nov 2006

11. The 'Code of Bank's Commitment to Customers' was released at an inaugural function on 1st July 2006 by which prominent personality?
(A) Shri S.S. Tarapore, Former Deputy Governor, RBI
(B) The then Finance Minister of India
(C) The Chairman of the Indian Banks' Association
(D) Dr. Y.V. Reddy, then Governor, Reserve Bank of India

Ans :

(D) Dr. Y.V. Reddy, then Governor, Reserve Bank of India
The 'Code of Bank's Commitment to Customers' was officially released by Dr. Y.V. Reddy, who was the Governor of the Reserve Bank of India at that time. The release took place during an inaugural function held at the RBI on 1st July 2006, marking a significant step towards enhancing customer rights and service standards.

May/June 2019

12. The Code of Bank's Commitment to Customers has been revised multiple times. Which of the following represents the correct sequence of revision years mentioned in the chapter?
(A) 2008, 2012, and 2016
(B) 2009, 2014, and 2018
(C) 2010, 2015, and 2020
(D) 2007, 2011, and 2017

Ans :

(B) 2009, 2014, and 2018
To keep pace with evolving banking practices and enhance customer protection, the Code was periodically updated. The text specifies that after its initial release in 2006, the Code was revised in August 2009, then again in 2014, and most recently in January 2018 to incorporate greater transparency and a more responsive grievance redressal system.

Oct/Nov 2010

13. What is the relationship between the BCSBI Code and the regulatory instructions issued by the RBI?
(A) The Code replaces all RBI instructions related to customer service.

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(B) The Code is superseded by RBI instructions, even if the Code sets a lower standard.
(C) The Code does not replace RBI instructions, and if the Code's standards are higher, they will prevail.
(D) The Code and RBI instructions are mutually exclusive and apply to different types of banks.

Ans :

(C) The Code does not replace RBI instructions, and if the Code's standards are higher, they will prevail.
The Code is designed to supplement, not supersede, RBI's regulatory or supervisory instructions. Member banks must comply with RBI directions. However, if a provision in the Code sets a higher standard of customer service than an RBI regulation, that higher standard prevails, as it represents a voluntary commitment by the bank to best practices.

May/June 2005

14. Which of the following is NOT listed as an objective of the Code of Bank's Commitment to Customers?
(A) To increase transparency for a better customer understanding.
(B) To encourage market forces to achieve higher operating standards.
(C) To promote safe and fair customer dealing in a digitized environment.
(D) To set the maximum interest rates for retail loans.

Ans :

(D) To set the maximum interest rates for retail loans.
The objectives of the Code focus on service quality, fairness, and transparency. They include promoting fair practices, increasing transparency, encouraging competition for better standards, fostering good relationships, and ensuring safety in digital banking. The Code does not interfere with the commercial decisions of banks, such as setting specific interest rates for their products.

Oct/Nov 2022

15. The application of the Code of Bank's Commitment to Customers extends to various products and services. Which of the following is explicitly mentioned as being covered?
(A) Third party insurance and investment products marketed through bank branches.
(B) Agricultural loans and crop insurance products.
(C) Services related to corporate mergers and acquisitions.
(D) Underwriting of public issues and merchant banking activities.

Ans :

(A) Third party insurance and investment products marketed through bank branches.
The Code's applicability is extensive, covering most retail banking products. The list explicitly includes third-party insurance and investment products that are marketed through the bank's branches or its authorized representatives or agents. This ensures that the bank's commitment to fair dealing extends even to products where it acts as a distributor or agent.

May/June 2018

16. Which of the following digital products are covered under the Code of Bank's Commitment to Customers?
1. e-wallet
2. Mobile Banking
3. UPI
4. Aadhaar Pay
(A) 1 and 2 only
(B) 1, 2, 3, and 4
(C) 1, 2, and 3 only
(D) 3 and 4 only

Ans :

(B) 1, 2, 3, and 4
The Code was updated to include modern digital banking products to ensure customer protection in the evolving technological landscape. The list of covered products explicitly mentions digital offerings such as e-wallet, Mobile Banking, Internet Banking, UPI, BHIM, and Aadhaar Pay, making the Code's provisions applicable to transactions conducted through these new-age channels.

Oct/Nov 2021

17. One of the key commitments of member banks is the 'Right to Fair Treatment'. Which action is part of fulfilling this commitment?
(A) To offer preferential interest rates exclusively to high-net-worth individuals.
(B) To ensure all customer dealings are based on ethical principles of integrity and

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(A) 33
(B) 35
(C) 30
(D) 42

Ans :

(A) 33
The table provides the specific weightage for each parameter in the rating methodology. 'Information dissemination' has a weightage of 20, and 'Customer feedback' has a weightage of 13. The combined weightage of these two parameters is calculated by adding them together: 20 + 13 = 33. This represents their total contribution to the final score.

Oct/Nov 2017

35. A member bank undergoes the BCSBI Code Compliance Rating survey and receives a final score of 78 out of 100. Based on the scoring scale provided, what rating category would this bank be placed in?
(A) High
(B) Average
(C) Above average
(D) Below Average

Ans :

(C) Above average
The scoring scale for the rating categories is clearly defined. A score of '70 to less than 85' falls into the 'Above average' category. Since the bank's score of 78 is within this range, it would be classified as having an 'Above average' level of compliance with the BCSBI codes.

May/June 2008

36. A bank's score in the code compliance rating is 55. Into which rating category would it be classified?
(A) High
(B) Above average
(C) Average
(D) Below Average

Ans :

(D) Below Average
The categories of rating are based on the score obtained out of 100. The scoring scale specifies that a score 'Below 60' is rated as 'Below Average'. A score of 55 clearly falls into this category, indicating a need for significant improvement in the bank's compliance with the code's provisions and customer service standards.

NODIA

Oct/Nov 2013

37. According to the customer grievances handling mechanism, if a complaint is unresolved at the branch level, the branch must escalate it and ensure a final response is given to the customer within what timeframe?
(A) 7 days
(B) 15 days
(C) 30 days
(D) 45 days

Ans :

(C) 30 days
The mechanism outlines a clear timeline for complaint resolution. If a grievance is not resolved at the branch, it must be escalated to the highest level of the bank's internal redressal authority. The bank must then provide a final response to the customer within a maximum period of 30 days from the receipt of the complaint.

May/June 2015

38. Ms. Gupta lodges a complaint with her bank on May 1st. By June 5th, she has not received any final response or a satisfactory resolution. As per the prescribed procedure, what is her next appropriate course of action?
(A) To file a police complaint against the bank manager.
(B) To approach the Banking Ombudsman appointed by the RBI.
(C) To wait for another 30 days for the bank's response.
(D) To send a legal notice to the bank's head office.

Ans :

(B) To approach the Banking Ombudsman appointed by the RBI.
The grievance handling mechanism specifies that if a customer does not receive a satisfactory response from the bank within 30 days of lodging the complaint, they have the right to pursue other avenues. The next step in the escalation process is to approach the Banking Ombudsman, an independent body appointed by the RBI to handle such grievances.

Oct/Nov 2012

39. If a customer hands over a written complaint to the bank, what is the bank's immediate obligation?
(A) To resolve the complaint within 24 hours.

Based on the provided list, which policy is a bank required to display on its website?

(A) Policy on staff recruitment, internal transfers, and promotion criteria.
(B) Policy on branch expansion, relocation, and location selection strategy.
(C) Policy on limited liability for unauthorized electronic banking transactions.
(D) Policy on inter-bank lending rates and money market participation guidelines.

Ans :

(C) Policy on limited liability for unauthorized electronic banking transactions.
The provided text explicitly lists the policies that member banks must display on their websites to ensure transparency. Among the options, the policy on Limited Liability in respect of unauthorized electronic banking transactions is clearly mentioned as item (viii). The other options are not part of this specific requirement listed in the Code's commitment to transparency.

May/June 2009

22. To increase awareness of the Code among customers, what are member banks required to do when a customer opens a new account?

(A) Conduct a mandatory quiz on the Code's provisions.
(B) Provide the customer with a copy of the Code.
(C) Obtain a signed declaration that the customer has read the entire Code.
(D) Charge a nominal fee for a printed booklet of the Code.

Ans :

(B) Provide the customer with a copy of the Code.
As part of the measures to increase awareness, the Code mandates that member banks will provide customers with a copy of the Code when they open an account. This proactive step ensures that customers are informed of their rights and the standards of service they can expect from the very beginning of their banking relationship.

Oct/Nov 2011

23. What does the 'Right to Suitability' obligate a member bank to do?

(A) Offer only the most profitable products to all customers.
(B) Ensure all products sold have a guaranteed return on investment.
(C) Sell the same standard product portfolio to every customer to ensure fairness.
(D) Offer products that are appropriate to the customer's needs and financial circumstances.

Ans :

(D) Offer products that are appropriate to the customer's needs and financial circumstances.
The 'Right to Suitability' is a crucial customer protection commitment. It requires member banks to offer products that are suitable for the customer's specific needs, based on an assessment of their financial situation and understanding. This prevents mis-selling of inappropriate or overly complex products that do not align with the customer's profile and objectives.

May/June 2010

24. The 'Right to Privacy' is a key commitment where banks treat all personal information of customers as private and confidential. This commitment is subject to matters mentioned in which part of the Code?

(A) Unit 5 on Privacy and Confidentiality
(B) Unit 3 on Information Transparency
(C) Unit 4 on Advertising, Marketing and Sales
(D) Unit 6 on Grievance Redressal

Ans :

(A) Unit 5 on Privacy and Confidentiality
The commitment to the 'Right to Privacy' obligates banks to maintain the confidentiality of their customers' personal information. However, this is subject to certain legally and operationally necessary disclosures. The specific details, exceptions, and conditions related to this right are further elaborated in Unit 5 of the Code, which deals with Privacy and Confidentiality.

Oct/Nov 2024

25. A customer, Mr. Sharma, notices that his bank has mistakenly applied a charge of ₹250 to his savings account. He files a complaint, and the bank confirms it was an error. According to the 'Right to Grievance Redressal and Compensation', what is the bank's obligation?

(A) To offer a formal apology for the mistake and provide assurance it will not be repeated.
(B) To reverse the erroneous charge and advise the customer on how to monitor their account better.

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(C) To promptly correct the error and compensate for any resulting financial loss.
(D) To reverse the charge immediately but state that the bank's policy prevents compensation for financial loss.

Ans :

(C) To promptly correct the error and compensate for any resulting financial loss.
The 'Right to Grievance Redressal and Compensation' requires banks to act swiftly when they make a mistake. The commitment is not just to correct the error by reversing the charge but also to compensate the customer for any consequential financial loss they may have suffered due to the bank's mistake, in line with the bank's compensation policy.

May/June 2017

26. Under the 'Right to Grievance Redressal', what information must a bank display in its branch for customers who have a grievance?
(A) The name of the branch official to approach, the PNO, and the Banking Ombudsman.
(B) The contact details of the RBI Governor.
(C) A list of lawyers specializing in banking law.
(D) The bank's annual financial performance report.

Ans :

(A) The name of the branch official to approach, the PNO, and the Banking Ombudsman.
To facilitate grievance redressal, banks are required to display key contact information prominently within the branch. This includes the name of the designated official at the branch level, the name and address of the Regional/Zonal Manager/Principal Nodal Officer (PNO) for escalation, and the contact details of the relevant Banking Ombudsman for further recourse.

Oct/Nov 2005

27. The Code of Bank's Commitment to Micro and Small Enterprises (MSEs) was first introduced by BCSBI in May 2008. When was this code subsequently revised?
(A) 2012
(B) 2014
(C) 2018
(D) 2015

Ans :

(D) 2015
The specialized code for Micro and Small Enterprises (MSEs) was brought out by BCSBI in May 2008 to set minimum banking standards for this sector. To keep it relevant and address the evolving needs of MSEs, the code was later revised in the year 2015, providing updated protection and guidelines for banks.

May/June 2020

28. The Code of Bank's Commitment to MSEs applies to enterprises as defined in which Act?
(A) The Companies Act, 2013
(B) The MSMED Act, 2006
(C) The Indian Contract Act, 1872
(D) The Banking Regulation Act, 1949

Ans :

(B) The MSMED Act, 2006
The scope and applicability of the Code for Micro and Small Enterprises are tied to the official definition of these entities. The code explicitly refers to MSEs as defined in the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, which provides the legal framework for classifying enterprises based on investment and turnover criteria.

Oct/Nov 2015

29. Which of the following is an objective of the Code of Bank's Commitment to Micro and Small Enterprises?
(A) To mandate specific loan amounts for all MSE applicants.
(B) To restrict competition among banks in the MSE lending space.
(C) To give a positive thrust to the MSE sector by providing easy access to efficient banking services.
(D) To ensure all MSEs are profitable within one year of receiving a bank loan.

Ans :

(C) To give a positive thrust to the MSE sector by providing easy access to efficient banking services.
A primary objective of the MSE Code is to support the growth and development of the sector. This is achieved by committing banks to provide easy and efficient access to banking services, thereby giving a positive thrust to MSEs. The code focuses on fair practices, transparency, and timely responses to the banking needs of these enterprises.

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May/June 2016

30. The application of the MSE Code covers enterprises engaged in which of the following activities?

1. Manufacturing or production of goods
2. Processing or preservation of goods
3. Providing or rendering of services

(A) 1 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2, and 3

Ans :

(D) 1, 2, and 3
The MSE Code, as defined by the MSMED Act, 2006, has a broad application. It covers Micro and Small Enterprises that are engaged in the manufacturing or production of goods, those involved in the processing or preservation of goods, and also those that are engaged in providing or rendering various services, encompassing a wide spectrum of business activities.

Oct/Nov 2021

31. Which of the following services is specifically listed as a credit facility covered under the Code of Bank's Commitment to MSEs, but not typically highlighted in the same way under the individual customer code?

(A) Factoring services and Co-acceptance of bills.
(B) Savings accounts and Term deposits.
(C) Remittances via NEFT and RTGS.
(D) Demat accounts and Government bonds.

Ans :

(A) Factoring services and Co-acceptance of bills.
While both codes cover basic banking products, the MSE code includes specific credit and trade finance facilities relevant to businesses. Services like factoring, co-acceptance and validation of bills, buyer's credit, and establishment of Letters of Credit are explicitly mentioned under the MSE code, reflecting the unique financial needs of these enterprises.

May/June 2024

32. For monitoring compliance with its Codes, BCSBI conducted surveys of bank branches and Central Processing Centres (CPCs). Which agency provided technical assistance to BCSBI for this rating process?

(A) CIBIL
(B) CRISIL
(C) ICRA
(D) CARE

Ans :

(B) CRISIL
To ensure a robust and professional methodology for rating member banks' compliance with the codes, BCSBI sought external expertise. The text explicitly states that BCSBI took the technical assistance of the rating agency CRISIL for this purpose. CRISIL helped in converting the survey data into a numerical score for the final rating.

Oct/Nov 2008

33. Based on the provided table for Code Compliance Rating, which parameter carried the highest weightage?

	Group of parameters	Weightage
1	Information dissemination	20
2	Transparency	22
3	Customer Centricity	30
4	Grievance redressal	15
5	Customer feedback	13

(A) Transparency
(B) Customer Centricity
(C) Information dissemination
(D) Grievance redressal

Ans :

(B) Customer Centricity
According to the table detailing the parameters and their weightages for the BCSBI Code Compliance Rating, 'Customer Centricity' is assigned a weightage of 30. This is the highest value among all the listed parameters, indicating that the bank's focus on the customer was the most critical factor in the overall compliance assessment.

May/June 2006

34. According to the rating methodology, what is the combined weightage of 'Information dissemination' and 'Customer feedback'?

	Group of parameters	Weightage
1	Information dissemination	20
2	Transparency	22
3	Customer Centricity	30
4	Grievance redressal	15
5	Customer feedback	13

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transparency.
(C) To prioritize service delivery and queue management based on a customer's financial status.
(D) To restrict access to certain basic banking facilities to promote digital channel adoption.

Ans :

(B) To ensure all customer dealings are based on ethical principles of integrity and transparency.
The 'Right to Fair Treatment' obligates banks to act fairly and reasonably in all their dealings. A core component of this is ensuring that all interactions and transactions with customers are founded on the ethical principles of integrity and transparency. This commitment forms the bedrock of building trust and a fair relationship with the customer.

May/June 2014

18. The commitment to 'Right to Fair Treatment' prohibits discrimination against customers on several grounds. Which of the following is NOT listed as a prohibited basis for discrimination?
(A) Credit Score
(B) Gender
(C) Religion
(D) Disability

Ans :

(A) Credit Score
The Code explicitly states that banks must not discriminate against customers on the basis of age, race, gender, marital status, religion, disability, or financial status when offering products and services. While a credit score is a legitimate and necessary factor for assessing creditworthiness for loans, it is not a basis for general discrimination in service delivery.

Oct/Nov 2007

19. Under the 'Right to Transparency, Fair and Honest Dealing', in which languages should banks provide timely and adequate information to customers?
(A) Only in English, as it is the universal business language.
(B) Only in Hindi, as it is the national official language.
(C) In Hindi, English, or the appropriate local language.
(D) In any of the 22 scheduled languages of India, at all branches.

Ans :

(C) In Hindi, English, or the appropriate local language.
To ensure effective communication and understanding, the commitment to transparency requires banks to provide essential information in one or more accessible languages. The Code specifies this should be in Hindi, English, or the appropriate local language of the region where the branch is located, making the information comprehensible to a wider customer base.

May/June 2025

20. Which of the following is a method banks must use to provide customers with complete information about products, services, and charges, as per the commitment to transparency?
(A) Exclusively through direct verbal communication provided by the acting branch manager.
(B) Solely through a consolidated annual statement which is physically mailed to the customer.
(C) Only after receiving a formal written request submitted by the customer via registered post.
(D) By using multiple channels like SMS, email, websites, and branch notice boards.

Ans :

(D) By using multiple channels like SMS, email, websites, and branch notice boards.
The Code mandates a multi-channel approach to ensure information is accessible. Banks are required to disseminate information about products, services, interest rates, and charges transparently through various methods, including sending SMS or emails, using electronic or print media, and displaying details on their website and branch notice boards, as per customer preference.

Oct/Nov 2019

21. "f. Displaying on banks' website their policies on: i. Deposits, ii. Cheque collection, iii. Grievance Redressal, iv. Compensation, v. Collection of Dues and Security Repossession, vi. Charter of Customer Rights, vii. Customer Protection Policy (including protection from cyber fraud), viii. Limited Liability in respect of unauthorized electronic banking transactions, ix. Facilities for senior citizens and differently-abled persons."

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(B) To arrange a meeting with the branch manager on the same day.
(C) To forward the complaint directly to the Banking Ombudsman.
(D) To provide an acknowledgement and later a "complaint reference number" via SMS.

Ans :

(D) To provide an acknowledgement and later a "complaint reference number" via SMS.
The procedure for handling written complaints is clearly defined. The bank must immediately provide an acknowledgement upon receipt. Additionally, a unique "complaint reference number" must be sent separately via SMS to the customer's registered mobile number. This ensures the complaint is officially logged and can be tracked for future reference and follow-up.

May/June 2011

40. For member banks who adopted the 'Code of Bank's Commitment to Customers', which of the following IBA voluntary codes would no longer be applicable to them?
1. Bankers' Fair Practice Code - w.e.f. June 2004
2. Fair Practice Code for Credit Card Operations
3. Model Code for Collection of Dues and Repossession of Security

(A) 1, 2, and 3
(B) 1 only
(C) 1 and 2 only
(D) 2 and 3 only

Ans :

(A) 1, 2, and 3
The adoption of the comprehensive BCSBI Code by a member bank superseded certain existing voluntary codes issued by the IBA. The text specifies that the Bankers' Fair Practice Code, the Fair Practice Code for Credit Card Operations, and the Model Code for Collection of Dues would not be applicable to banks that were members of BCSBI.

Oct/Nov 2020

41. After the dissolution of BCSBI, the RBI set up a new department to act as a single nodal point for all external complaints on deficiency of services. What is this department called?
(A) Department of Banking Supervision (DBS)
(B) Customer Service Department (CSD)
(C) Consumer Education and Protection Department (CEPD)
(D) Integrated Banking Services Department (IBSD)

Ans :

(C) Consumer Education and Protection Department (CEPD)
Following the decision to dissolve BCSBI, the Reserve Bank of India established the Consumer Education and Protection Department (CEPD). This department was created to serve as a single nodal point for the receipt and disposal of all external complaints related to deficiencies in services provided by the RBI itself and RBI-regulated entities.

May/June 2022

42. What were the major functions of the Consumer Education and Protection Department (CEPD) mentioned in the chapter?
(A) To administer the Banking Ombudsman Scheme and serve as the nodal point for the former BCSBI.
(B) To conduct the bi-monthly monetary policy review and oversee currency management operations.
(C) To perform statutory audits of the annual financial statements of all public sector banks.
(D) To manage the central government's public debt and its annual market borrowing program.

Ans :

(A) To administer the Banking Ombudsman Scheme and serve as the nodal point for the former BCSBI.
The CEPD was assigned two primary functions related to customer service. It was tasked with administering the Banking Ombudsman Scheme, which is the cornerstone of grievance redressal. Additionally, it was designated to act as the nodal department for the erstwhile BCSBI, managing the transition and legacy of its codes and standards.

Oct/Nov 2023

43. The "Integrated Ombudsman Scheme 2021" was created by merging three existing ombudsman schemes. Which of the following was NOT one of the schemes that were integrated?
(A) Banking Ombudsman Scheme, 2006
(B) Ombudsman Scheme for Digital Transactions, 2019

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(C) Ombudsman Scheme for NBFCs, 2018
(D) Ombudsman Scheme for Insurance, 1998

Ans :

(D) Ombudsman Scheme for Insurance, 1998
The Integrated Ombudsman Scheme 2021 consolidated the grievance redressal mechanisms for entities regulated by the RBI. It merged the Banking Ombudsman Scheme (2006), the Ombudsman Scheme for Non-Banking Financial Companies (NBFCs, 2018), and the Ombudsman Scheme for Digital Transactions (2019). The Insurance Ombudsman scheme is separate and regulated by IRDAI.

May/June 2016

44. What is a key benefit for complainants under the Integrated Ombudsman Scheme 2021?
(A) The complainant must first correctly identify the specific scheme under which to file their complaint.
(B) The complainant no longer needs to identify the specific scheme for filing a complaint.
(C) Complaints are automatically rejected if not filed at the ombudsman office with the correct jurisdiction.
(D) The scheme mandates that all formal complaints must be filed exclusively in English or Hindi.

Ans :

(B) The complainant no longer needs to identify the specific scheme for filing a complaint.
A significant feature of the Integrated Ombudsman Scheme 2021 is the simplification of the complaint filing process. Complainants no longer need to determine which of the previous three schemes their grievance falls under. This "one nation, one ombudsman" approach removes a major hurdle and makes the redressal mechanism more accessible for the common person.

Oct/Nov 2009

45. Under the Integrated Ombudsman Scheme 2021, where has the Centralised Receipt and Processing Centre (CRPC) been established?
(A) Mumbai
(B) New Delhi
(C) Chandigarh
(D) Chennai

Ans :

(C) Chandigarh
To centralize the handling of complaints, the Integrated Ombudsman Scheme 2021 established a Centralised Receipt and Processing Centre (CRPC). This center, responsible for the receipt and initial processing of both physical and email complaints in any language, has been set up at the RBI's office in Chandigarh, streamlining the entire intake process.

May/June 2023

46. In the context of the Integrated Ombudsman Scheme 2021, who holds the responsibility of representing the Regulated Entity (like a Public Sector Bank) and furnishing information for complaints?
(A) The Branch Manager of the concerned branch.
(B) The bank's designated legal counsel.
(C) The Chief Executive Officer of the bank.
(D) The Principal Nodal Officer in the rank of a General Manager or equivalent.

Ans :

(D) The Principal Nodal Officer in the rank of a General Manager or equivalent.
The scheme designates a senior official to be the single point of contact for the regulator. The responsibility of representing the Regulated Entity and providing all necessary information regarding customer complaints lies with the Principal Nodal Officer (PNO). For a Public Sector Bank, this officer must be of the rank of a General Manager.

Oct/Nov 2018

47. Who acts as the Appellate Authority under the Integrated Ombudsman Scheme 2021?
(A) The Executive Director in charge of the Consumer Education and Protection Department (CEPD) of RBI.
(B) The Governor of the Reserve Bank of India.
(C) A retired judge of the Supreme Court.
(D) The Secretary of the Department of Financial Services, Ministry of Finance.

Ans :

(A) The Executive Director in charge of the Consumer Education and Protection Department (CEPD) of RBI.
The scheme provides for an appeal process. The ultimate authority to hear appeals against the decisions or awards of the Ombudsman is vested

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within the RBI itself. The Executive Director of the RBI who is in charge of the Consumer Education and Protection Department (CEPD) is designated as the Appellate Authority under the scheme.

May/June 2007

48. Consider the following statements regarding the 'Code of Bank's Commitment to Customers':
Statement 1: The Code was developed to promote good and fair banking practices by setting minimum standards.
Statement 2: The Code aims to decrease transparency to protect the commercial interests of the bank.
Which of the statements is/are correct?
(A) Only Statement 1
(B) Only Statement 2
(C) Both Statement 1 and Statement 2
(D) Neither Statement 1 nor Statement 2

Ans :

(A) Only Statement 1
Statement 1 accurately reflects a primary objective of the Code, which is to establish minimum benchmarks for fair practices. Statement 2 is incorrect; a key objective of the code is to increase transparency so that customers can better understand what they can reasonably expect from their bank, not to decrease it.

Oct/Nov 2025

49. Which of the following is an INCORRECT statement regarding the key commitments of member banks to customers?
(A) Banks must act fairly and reasonably in all their dealings with customers.
(B) Banks must treat customer information as public data to promote transparency.
(C) Banks must ensure their advertising and promotional literature are clear and not misleading.
(D) Banks should offer products based on an assessment of the customer's financial circumstances.

Ans :

(B) Banks must treat customer information as public data to promote transparency.
This statement is incorrect as it contradicts the 'Right to Privacy'. A key commitment is to treat all personal information of customers as private and confidential, subject to legally permissible disclosures. Making customer information public would be a severe breach of this fundamental right and the bank's commitment under the Code.

May/June 2012

50. Match List-I (Key Commitment) with List-II (Description).

	List-I (Key Commitment)		List-II (Description)
P.	Right to Fair Treatment	1.	Offer products appropriate to customer needs and finances
Q.	Right to Transparency	2.	Treat personal information as private and confidential
R.	Right to Suitability	3.	Do not discriminate based on age, race, gender, etc
S.	Right to Privacy	4.	Ensure contracts are easily understood and well-communicated

(A) P-3, Q-4, R-1, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-3, R-2, S-1

Ans :

(A) P-3, Q-4, R-1, S-2
The correct matching is as follows: 'Right to Fair Treatment' includes non-discrimination (P-3). 'Right to Transparency' involves clear and understandable contracts (Q-4). 'Right to Suitability' means offering appropriate products based on customer profile (R-1). 'Right to Privacy' requires treating personal information as confidential (S-2), aligning with the core principles of the Code.

Oct/Nov 2014

51. Which of the following pairs is INCORRECTLY matched?
(A) BCSBI Formation: 18th February 2006
(B) Customer Code Release: 1st July 2006
(C) BCSBI Dissolution Announcement: 25th August 2020

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(D) MSE Code Introduction: May 2008

Ans :

(C) BCSBI Dissolution Announcement: 25th August 2020
The announcement of the decision to dissolve BCSBI was made in the RBI's Annual Report dated 25th August 2020. The date 1st January 2018 corresponds to the last revision of the Code of Bank's Commitment to Customers. The other pairs—BCSBI's formation, the customer code's release, and the MSE code's introduction—are all correctly dated.

May/June 2019

52. Assertion (A): The BCSBI Code sets minimum standards of banking practices for banks to follow.
Reason (R): The Code does not replace or supersede regulatory instructions of the RBI.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
Both statements are factually correct. The BCSBI Code does set minimum standards (A), and it also coexists with, rather than replaces, RBI regulations (R). However, (R) does not explain why (A) is true. The Code sets standards as part of its objective to promote fair practices, not because it doesn't supersede RBI rules.

Oct/Nov 2006

53. A bank, in its marketing campaign for a new credit card, uses complex jargon and fine print to hide significant annual charges. A customer signs up based on the misleading advertisement and is later surprised by the high fees. Which customer right, as per the BCSBI code, has the bank primarily violated?
(A) Right to Privacy
(B) Right to Grievance Redressal
(C) Right to Transparency, Fair and Honest Dealing
(D) Right to Suitability

Ans :

(C) Right to Transparency, Fair and Honest Dealing
The bank's action is a direct violation of the 'Right to Transparency, Fair and Honest Dealing'. This right obligates banks to ensure their advertising is clear and not misleading, and that key information like prices (charges), terms, and conditions are clearly disclosed. Using complex jargon and fine print to obscure fees is an unfair and non-transparent practice.

May/June 2021

54. Identify the correct statements regarding the Code Compliance Rating by BCSBI.
1. The rating was published in the public domain.
2. The rating methodology used technical assistance from CIBIL.
3. The parameter 'Customer Centricity' had the highest weightage of 30.
4. A score of 80 would be rated as 'High'.
(A) 1 and 3 only
(B) 2 and 4 only
(C) 1, 2, and 3 only
(D) 1, 3, and 4 only

Ans :

(A) 1 and 3 only
Statement 1 is correct as ratings were made public. Statement 3 is correct as 'Customer Centricity' had a 30% weightage. Statement 2 is incorrect; assistance was from CRISIL, not CIBIL. Statement 4 is incorrect; a score of 80 falls in the 'Above average' category (70 to less than 85), while 'High' is 85 and above.

Oct/Nov 2010

55. What is the primary purpose of Branch Level Customer Service Committee meetings?
(A) To approve high-value loans for branch customers.
(B) To conduct the annual performance appraisal of branch staff.
(C) To set the monthly business targets for the branch.
(D) To provide a forum where customers can attend and discuss service-related issues.

Ans :

(D) To provide a forum where customers can attend and discuss service-related issues.
Member banks are required to hold monthly Branch Level Customer Service Committee

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meetings and display the date. The purpose of these meetings is to create a direct channel for communication, allowing customers to attend, if they desire, and provide feedback or raise concerns regarding the quality of service, thereby fostering a more responsive banking environment.

May/June 2005

56. A key feature of the Integrated Ombudsman Scheme, 2021 is that a complaint would no longer be rejected simply on the account of being "not covered under the scheme". Why is this so?

(A) Because the scheme defines 'deficiency in service' as the ground for a complaint, with a specific list of exclusions.

(B) Because the scheme now covers every possible type of financial transaction.

(C) Because all complaints are now automatically accepted for hearing.

(D) Because the complainant can now choose to appeal the rejection immediately.

Ans :

(A) Because the scheme defines 'deficiency in service' as the ground for a complaint, with a specific list of exclusions.

The new scheme addresses a previous loophole where complaints could be rejected if they didn't fit neatly into the old framework. By formally defining 'deficiency in service' as the basis for a complaint and providing a specified list of what is excluded, the scheme creates clearer grounds for admission, preventing arbitrary rejections for being "not covered".

Oct/Nov 2022

57. Under a specific circumstance mentioned in the Integrated Ombudsman Scheme 2021, a Regulated Entity (the bank) will not have the right to appeal an award issued by the ombudsman. What is this circumstance?

(A) When the total compensation award issued by the ombudsman is below the defined monetary threshold of ₹1 lakh.

(B) When the original complaint is related to a failed or unauthorized digital payment transaction on a unified platform.

(C) When the award is based on the entity's failure to provide timely or satisfactory information.

(D) When the complaint has been filed by a customer who is officially designated as a senior citizen under bank policy.

Ans :

(C) When the award is based on the entity's failure to provide timely or satisfactory information.

The scheme places a strong emphasis on cooperation and timely response from banks. To enforce this, it includes a provision that if an award is issued by the ombudsman specifically because the Regulated Entity failed to provide satisfactory and timely information or documents, the entity loses its right to appeal against that award.

May/June 2018

58. Which of the following statements about the application of the Code of Bank's Commitment to Customers is correct?

(A) It applies to services delivered through all channels, including branches, agents, and the internet.

(B) It applies exclusively to services that are provided across the counter within physical bank branches.

(C) It does not extend to services that are provided on the bank's behalf by its authorized third-party agents.

(D) It mandates that all products and services mentioned in the code must be offered by every member bank.

Ans :

(A) It applies to services delivered through all channels, including branches, agents, and the internet.

The Code has a wide scope of application, covering all delivery channels. It explicitly states that it applies to all listed products and services, whether they are provided by member bank branches, agents acting on their behalf, across the counter, by post, through electronic devices, on the internet, or by any other method.

Oct/Nov 2016

59. The 'Code of Bank's Commitment to Customers' is also described as a 'Code of Customer Rights'. What is its fundamental purpose in this context?

(A) To provide customers with the legal power to sue their banks directly.

(B) To list the maximum penalties that can be imposed on customers for non-compliance.

(C) To define the rights of the bank over the customer's assets.

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the overall assessment of a bank's compliance with the code.

May/June 2019

94. The charter states that member banks will offer digital banking and payment systems in a specific type of technological environment. Which of the following best describes this environment?

(A) A simple, low-cost, and open-source environment.
(B) An environment that is exclusively mobile-based.
(C) A highly complex environment to deter fraudulent access.
(D) A secure, convenient, and robust technological environment.

Ans :

(D) A secure, convenient, and robust technological environment.
As part of the 'Right to Fair Treatment,' the code addresses the digital banking space. It commits banks to offer these services not just in any environment, but specifically in one that is secure (protecting customer data and funds), convenient (easy to use), and robust (reliable and stable), ensuring a positive and safe customer experience.

Oct/Nov 2006

95. What was the primary impact of the covenant that member banks entered into with BCSBI?

(A) It bound the member banks to implement the Code and accept supervision by the Board.
(B) It allowed BCSBI to dictate the loan interest rates for the member banks.
(C) It transferred the ownership of the banks to a trust managed by BCSBI.
(D) It made the RBI legally liable for any service failure by a member bank.

Ans :

(A) It bound the member banks to implement the Code and accept supervision by the Board.
The covenant was the formal agreement through which banks became members of BCSBI. By signing this covenant, the member banks voluntarily bound themselves to a commitment. This commitment was twofold: to implement the provisions of the Code in their operations and to submit to supervision and monitoring by the BCSBI Board regarding their adherence.

May/June 2021

96. "The Scheme has done away with the jurisdiction of each ombudsman office. A centralised Receipt and Processing Centre has been set up at RBI, Chandigarh for receipt and initial processing of physical and email complaints in any language." Based on this information, what is a direct consequence of doing away with the jurisdiction of each ombudsman office?

(A) Complainants are now required to pay a standard, non-refundable processing fee to file a complaint.
(B) Complaints can be processed more efficiently through a single, centralized intake center.
(C) Banks are no longer mandated to appoint a Principal Nodal Officer specifically for complaint handling.
(D) The total number of physical ombudsman offices in the country has been reduced to a single central location.

Ans :

(B) Complaints can be processed more efficiently through a single, centralized intake center.
The source directly links the removal of jurisdiction to the creation of a Centralised Receipt and Processing Centre (CRPC). This structural change implies that instead of complaints being routed to various offices based on location, they all go to one point. This centralization is designed to streamline the intake and initial processing, leading to more efficient handling.

Oct/Nov 2010

97. Identify the correct statement regarding the application of the Code of Bank's Commitment to Customers.

(A) It covers only deposit and loan products for individual customers.
(B) It covers card products like credit cards, even if they are offered by subsidiaries of member banks.
(C) It does not apply to transactions done through UPI or BHIM.
(D) It is not applicable to government-related transactions handled by the bank.

Ans :

(B) It covers card products like credit cards, even if they are offered by subsidiaries of member banks.

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May/June 2009

64. Consider the following statements about the Integrated Ombudsman Scheme, 2021.
Statement 1: The scheme has done away with the jurisdiction of each ombudsman office.
Statement 2: The scheme requires complainants to file physical complaints only at the RBI office in their state capital.
Which of the statements is/are correct?
(A) Only Statement 1
(B) Only Statement 2
(C) Both Statement 1 and Statement 2
(D) Neither Statement 1 nor Statement 2

Ans :

(A) Only Statement 1
Statement 1 is correct; the integrated scheme removed the jurisdictional limitations of individual ombudsman offices, creating a 'one nation, one ombudsman' system. Statement 2 is incorrect; the scheme established a Centralised Receipt and Processing Centre in Chandigarh and also accepts complaints via email, removing the need to file at a specific location.

Oct/Nov 2011

65. The Code of Bank's Commitment to Customers applies to a wide range of payment services. Which of the following electronic transfer mechanisms are explicitly mentioned?
(A) SWIFT and CHAPS
(B) RTGS and NEFT
(C) Fedwire and SEPA
(D) IMPS and UPI only

Ans :

(B) RTGS and NEFT
The Code's coverage of payment services includes various forms of remittances and wire transfers. The text specifically lists electronic transactions such as Real Time Gross Settlement (RTGS) and National Electronic Funds Transfer (NEFT) as being within the ambit of the Code, ensuring that standards of service apply to these widely used systems.

May/June 2010

66. Why was it considered critical to have a fair understanding of the BCSBI Code even after the RBI decided to dissolve the body?
(A) Because most bank customer service policies are founded on the guidelines established by the code.
(B) Because the Code's core principles were being actively converted into a new legally binding Act of Parliament.
(C) Because all unresolved cases initiated under BCSBI were mandated by the RBI to be retried under its original framework.
(D) Because BCSBI was officially designated to continue operating as a permanent advisory body within the IBA.

Ans :

(A) Because most bank customer service policies are founded on the guidelines established by the code.
Despite the dissolution of BCSBI as a formal body, its influence persists. The codes it developed left a significant imprint on the banking sector. The customer service policies of most banks were designed based on the principles and guidelines of the BCSBI code, making an understanding of it essential for interpreting current bank policies.

Oct/Nov 2024

67. One of the 'Other Aims and Objects' of BCSBI was to maintain close contacts and collaborate with various institutions. Which specific Indian banking body is mentioned in this context?
(A) National Bank for Agriculture and Rural Development (NABARD)
(B) Small Industries Development Bank of India (SIDBI)
(C) Indian Banks' Association (IBA)
(D) Export-Import Bank of India (EXIM Bank)

Ans :

(C) Indian Banks' Association (IBA)
In its list of 'Other Aims and Objects', BCSBI's mandate included maintaining close contacts with similar or allied organizations. The Indian Banks' Association (IBA) is explicitly mentioned as an institution with which BCSBI would collaborate, enroll as a member, or provide assistance to, in furtherance of its own objectives of setting banking standards.

May/June 2017

68. According to the Code, how should bank staff be trained to handle customer interactions?
(A) To maximize sales of third-party products during every customer interaction.
(B) To strictly follow a script without any deviation, regardless of the customer's query.

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(D) To set minimum standards of banking practices that banks must follow when dealing with individual customers.

Ans :

(D) To set minimum standards of banking practices that banks must follow when dealing with individual customers.
As a 'Code of Customer Rights', its core purpose is to establish a baseline of service and fair treatment. It sets the minimum standards of practice that member banks voluntarily commit to follow in their day-to-day dealings with individual customers, thereby protecting customer interests and clarifying what they can expect from their bank.

May/June 2014

60. An NRI customer, Mr. Singh, has a complaint against his bank in India. He is located in Canada and wants to file his complaint with the RBI Ombudsman. Under the Integrated Ombudsman Scheme, 2021, how can he file his complaint?
(A) He must physically visit the RBI office in Chandigarh.
(B) He can file an email complaint to the Centralised Receipt and Processing Centre.
(C) He must authorize a relative in India to file a physical complaint on his behalf.
(D) The scheme does not cover complaints from customers residing outside India.

Ans :

(B) He can file an email complaint to the Centralised Receipt and Processing Centre.
The Integrated Ombudsman Scheme has simplified the filing process. The establishment of a Centralised Receipt and Processing Centre (CRPC) at RBI, Chandigarh, is designed to handle both physical and email complaints. This allows customers, including those located abroad, to easily file their grievances electronically without the need for a physical presence in India.

Oct/Nov 2007

61. The BCSBI was set up as a collaborative effort between which two entities?
(A) Ministry of Finance and Indian Banks' Association (IBA)
(B) Securities and Exchange Board of India (SEBI) and Banks
(C) Reserve Bank of India (RBI) and Banks
(D) Indian Banks' Association (IBA) and All India Bank Employees Association (AIBEA)

Ans :

(C) Reserve Bank of India (RBI) and Banks
The Banking Codes and Standards Board of India (BCSBI) was established as a co-operative venture. It was a collaborative effort involving the Reserve Bank of India (RBI), which conceptualized the body, and the banks themselves, which became its members and voluntarily agreed to adhere to the codes it formulated for improving customer service standards.

May/June 2025

62. In the context of the BCSBI Code, what does the term 'we' denote?
(A) The customer and the bank jointly.
(B) The Reserve Bank of India.
(C) The Banking Codes and Standards Board of India.
(D) The bank the customer deals with.

Ans :

(D) The bank the customer deals with.
The Code uses specific terminology for clarity. As mentioned in the 'Let Us Sum Up' section, the term 'customer' denotes the customer, and the pronoun 'we' is used throughout the document to refer to the member bank with which the customer has a relationship and which is a signatory to the Code's commitments.

Oct/Nov 2019

63. Which of the following is NOT a policy that banks are required to display on their website as per the Code's commitment to transparency?
(A) Internal Audit and Inspection Policy
(B) Compensation Policy
(C) Grievance Redressal Policy
(D) Charter of Customer Rights

Ans :

(A) Internal Audit and Inspection Policy
The Code mandates the display of several customer-facing policies on the bank's website, such as those on compensation, grievance redressal, and the charter of customer rights. However, the Internal Audit and Inspection Policy is an internal governance document and is not included in the list of policies required for public display for customers.

NODIA

(B) Immediately initiate the prescribed harsh recovery proceedings to secure the bank's outstanding funds at all costs.
(C) Formally advise the MSE to cease all business operations immediately to prevent any further potential financial losses.
(D) Inform the owner that the code is only applicable to new loan sanctions and not for existing accounts facing difficulty.

Ans :

(A) Adopt a supportive and constructive approach as guided by the code for handling enterprises in financial difficulty.
A key purpose of the MSE Code is to explain how banks are expected to deal with these enterprises not just in normal times but also specifically "in times of financial difficulty." This implies a commitment to a supportive and constructive approach rather than immediate punitive action, aligning with the goal of fostering a fair relationship.

Oct/Nov 2021

73. What was the reason for publishing the BCSBI code compliance rating in the public domain?
(A) To allow customers to choose the bank with the lowest service charges.
(B) To fulfill a statutory requirement under the Banking Regulation Act.
(C) To trigger member banks to improve their functions for a better rating.
(D) To provide data for academic research purposes only.

Ans :

(C) To trigger member banks to improve their functions for a better rating.
The public disclosure of compliance ratings served as a powerful incentive mechanism. By making the ratings public, BCSBI intended to enhance or diminish the image of the member bank based on its performance. This reputational risk would, in turn, trigger the banks to take concrete steps to improve their processes and customer service functions.

May/June 2024

74. What does the 'one nation one ombudsman' concept under the Integrated Banking Ombudsman Scheme 2021 primarily signify?
(A) It has removed the need for complainants to identify the correct scheme or office jurisdiction.
(B) There is only one Ombudsman for the entire country.
(C) All complaints can only be filed in one designated language.
(D) All banks are now considered as a single entity for complaint purposes.

Ans :

(A) It has removed the need for complainants to identify the correct scheme or office jurisdiction.
The 'one nation one ombudsman' concept signifies the integration and centralization of the grievance redressal process. It has eliminated the territorial and schematic jurisdictions of the previous ombudsman offices, meaning a customer can file a complaint without worrying about which specific office or scheme (Banking, NBFC, Digital) their grievance belongs to.

Oct/Nov 2008

75. Which of the following is a correct statement regarding the adoption of codes for banks that were NOT members of BCSBI?
(A) They were exempt from following any customer service codes.
(B) They were required to create their own unique fair practice codes.
(C) They were automatically governed by the BCSBI code as a default standard.
(D) They would continue to follow the voluntary codes of the IBA.

Ans :

(D) They would continue to follow the voluntary codes of the IBA.
The chapter clarifies the position of non-member banks. While BCSBI members were governed by the BCSBI's comprehensive code, banks that were not members of BCSBI (or not eligible to be members) were expected to continue following the existing voluntary codes issued by the Indian Banks' Association (IBA), such as the Bankers' Fair Practice Code.

May/June 2006

76. Consider the following commitments under the BCSBI code:
1. Promoting a fair and equitable relationship with customers.

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2. Offering digital banking in a secure and convenient environment.
3. Not discriminating against customers based on financial status.
4. Correcting mistakes promptly and compensating for financial loss.

Which of these fall under the 'Right to Fair Treatment'?

(A) 1 and 4 only
(B) 2, 3 and 4 only
(C) 1, 2 and 3 only
(D) All 1, 2, 3, and 4

Ans :

(C) 1, 2 and 3 only

The 'Right to Fair Treatment' is a broad commitment. It includes promoting a fair relationship, offering secure digital banking, and non-discrimination. The commitment to correcting mistakes and providing compensation, while a fair practice, is specifically categorized under the separate 'Right to Grievance Redressal and Compensation', which is the fifth key commitment.

Oct/Nov 2017

77. Identify the INCORRECT statement regarding the handling of customer complaints by a bank.

(A) If a complaint is made over the phone, the bank shall provide a complaint reference number.
(B) The bank must endeavor to send a final response within 30 days of receiving the complaint.
(C) If the bank needs more time, it does not need to inform the customer.
(D) Banks will display the name of the official at the branch whom customers may approach.

Ans :

(C) If the bank needs more time, it does not need to inform the customer.

This statement is incorrect. The grievance handling mechanism requires the bank to be transparent about timelines. If the bank needs more time to respond beyond the stipulated 30 days, it must explain to the customer why more time is needed and also inform them how to take their complaint further if they are not satisfied.

NODIA

May/June 2008

78. Match List-I (Concept) with List-II (Related Detail).

	List-I (Concept)		**List-II (Related Detail)**
P.	Tarapore Committee	1.	Integrated three separate ombudsman schemes
Q.	Code Compliance Rating	2.	Used Bankers' Fair Practice Code as a standard.
R.	Code of Banks' Commitment	3.	Recommended setting up of BCSBI.
S.	Integrated Ombudsman Scheme 2021	4.	Assigned a 22% weightage to 'Transparency'

(A) P-3, Q-4, R-2, S-1
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-2, R-4, S-1
(D) P-4, Q-3, R-1, S-2

Ans :

(A) P-3, Q-4, R-2, S-1

The correct matches are: The Tarapore Committee recommended the establishment of BCSBI (P-3). The Code Compliance Rating methodology gave a 22% weightage to the 'Transparency' parameter (Q-4). The Code of Banks' Commitment was based on the IBA's Bankers' Fair Practice Code (R-2). The Integrated Ombudsman Scheme 2021 merged three previous schemes (S-1).

Oct/Nov 2013

79. What was the mandate of the committee constituted under Shri S.S. Tarapore in 2003?

(A) To suggest steps to improve the quality of banking services to individual customers.
(B) To formulate a new monetary policy framework for India.
(C) To oversee the merger of public sector banks.
(D) To design the framework for digital payment systems in India.

Ans :

(A) To suggest steps to improve the quality of banking services to individual customers.

The committee, formally named the "Committee on Procedure & Performance Audit of Public Services," had a clear mandate focused on customer service. Its main objective was to

address issues related to the availability of adequate banking services and to identify factors inhibiting best customer service, suggesting improvements for the benefit of individual customers.

May/June 2015

80. The Code of Bank's Commitment to Customers was available in how many regional languages, in addition to English and Hindi?
(A) 8
(B) 10
(C) 11
(D) 12

Ans :

(B) 10
To ensure wide accessibility and understanding, the codes were translated into multiple languages. The text specifies that the Code of Bank's Commitment to Customers (January 2014 version) was made available in 10 regional languages, apart from the standard English and Hindi versions, catering to the linguistic diversity of the country.

Oct/Nov 2012

81. Which of the following is a collection of non-fund based credit facilities covered under the Code of Bank's Commitment to MSEs?
(A) Cash credit, overdraft, cheque purchase
(B) Establishment of L/C, issuing of Guarantee, Co-acceptance of bills
(C) Term deposits, recurring deposits, current accounts
(D) Factoring services, Merchant services, Demat services

Ans :

(B) Establishment of L/C, issuing of Guarantee, Co-acceptance of bills
The MSE code distinguishes between fund-based and non-fund based facilities. Non-fund based facilities are those where the bank provides a commitment or guarantee without an immediate outflow of funds. The list explicitly includes the establishment of inland and/or foreign Letter of Credit (L/C), issuing of Guarantees, and Co-acceptance of bills as examples.

May/June 2011

82. Which of the following statements about the 'Right to Suitability' is correct?
(A) It requires banks to assess a customer's financial circumstances and understanding.
(B) It ensures that customers get the highest possible interest rate on their deposits.
(C) It is detailed further in Unit 5 on Privacy and Confidentiality.
(D) It applies only to loan products and not to investment products.

Ans :

(A) It requires banks to assess a customer's financial circumstances and understanding.
The 'Right to Suitability' is a principle of responsible banking that requires the bank to make an effort to understand the customer's financial situation. The bank must offer products that are appropriate based on an assessment of the customer's financial circumstances and their level of understanding of the product, thereby preventing mis-selling.

Oct/Nov 2020

83. The Code of Bank's Commitment to Customers was revised in January 2018. What was a key reason for this revision?
(A) To reduce the number of products covered under the code.
(B) To make the code mandatory for all non-banking financial companies (NBFCs).
(C) To provide additional protection to customers and enhance practices in customer service.
(D) To align the code with international banking laws exclusively.

Ans :

(C) To provide additional protection to customers and enhance practices in customer service.
The revisions to the code were aimed at strengthening customer rights. The January 2018 revision was specifically intended to bring about greater transparency, further enhance banking practices related to customer service, create a more responsive grievance redressal system, and provide additional, updated protections for customers in the modern banking environment.

May/June 2022

84. A bank is rated under the BCSBI Code Compliance Rating and scores 68. What is its rating category?
(A) Below Average
(B) Above average
(C) High
(D) Average

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(C) To prioritize high-net-worth customers over regular account holders in service queues.
(D) To attend to customers promptly and courteously, and deal with issues sympathetically.

Ans :

(D) To attend to customers promptly and courteously, and deal with issues sympathetically.
A key aspect of the 'Right to Fair Treatment' is the quality of staff interaction. The code mandates training staff to attend to customers adequately and appropriately. This includes being prompt and courteous, and more importantly, dealing quickly and sympathetically with things that may go wrong, such as correcting mistakes and handling complaints expeditiously.

Oct/Nov 2005

69. The Code of Bank's Commitment to MSEs aims to improve member banks' understanding of their MSE customers' businesses. How is this to be achieved?
(A) By making annual factory visits mandatory for all MSE borrowers.
(B) By appointing a bank official to the board of every MSE.
(C) Through effective communication.
(D) By reviewing the MSE's tax returns exclusively.

Ans :

(C) Through effective communication.
One of the stated objectives of the Code of Bank's Commitment to Micro and Small Enterprises is to improve the member banks' understanding of their customers' businesses. The method prescribed to achieve this is through effective and open communication, fostering a relationship where the bank is better informed about the MSE's operations, needs, and challenges.

May/June 2020

70. Which of the following is NOT covered under the Code of Bank's Commitment to Micro and Small Enterprises?
(A) Demat accounts and government bonds.
(B) Personal loans for the proprietor's family expenses.
(C) Loans and credit facilities like cash credit and overdraft.
(D) Issuing of Guarantees (both inland and foreign).

Ans :

(B) Personal loans for the proprietor's family expenses.
The MSE code is specifically for products and services related to the Micro and Small Enterprise itself. While it covers a wide range of business-related banking like deposits, credit facilities (cash credit, overdraft), guarantees, and demat accounts, it does not extend to the personal, non-business financial needs of the proprietor, such as personal loans.

Oct/Nov 2015

71. "The methodology adopted by BCSBI for rating the member banks was to convert the data obtained during branch visits and customer responses in to numerical score assigning different weightage out of 100 to the parameters." Based on this text, what was the primary input for the BCSBI rating methodology?
(A) Only the bank's published annual financial statements.
(B) The number of new accounts opened by the bank.
(C) The bank's performance on the stock market.
(D) Data from branch visits and customer feedback.

Ans :

(D) Data from branch visits and customer feedback.
The provided source text clearly states the basis of the rating methodology. The numerical score was derived from data and information that was obtained through two primary channels: physical visits to bank branches to assess implementation, and responses gathered from customers to understand their actual experience with the bank's services, reflecting a comprehensive approach.

NODIA

May/June 2013

72. A small manufacturing unit, defined as an MSE under the MSMED Act, 2006, is facing temporary financial difficulty. The owner approaches the bank for support. According to the purpose of the Code of Bank's Commitment to MSEs, how is the bank expected to deal with the enterprise?
(A) Adopt a supportive and constructive approach as guided by the code for handling enterprises in financial difficulty.

Oct/Nov 2018

89. What is the minimum score required for a bank to be rated in the 'High' category in the Code Compliance Rating?
(A) 70
(B) 75
(C) 85
(D) 80

Ans :

(C) 85
The rating scale for code compliance is explicitly defined in the chapter. To achieve the top rating of 'High', a member bank must secure a score of 85 or above in the compliance audit. This score signifies an excellent level of adherence to the standards and commitments laid out in the BCSBI codes.

May/June 2007

90. The BCSBI Code of Bank's Commitment to MSEs covers enterprises engaged in providing or rendering services. Which of the following would be an example of such an enterprise?
(A) A small IT consultancy firm.
(B) A small unit manufacturing auto components.
(C) A food processing unit preserving fruits.
(D) A small-scale textile weaving unit.

Ans :

(A) A small IT consultancy firm.
The code applies to MSEs in both manufacturing and service sectors. An IT consultancy firm is an enterprise engaged in "providing or rendering of services." The other options represent enterprises involved in the "manufacturing or production" or "processing or preservation" of goods, which are also covered but represent a different category of activity.

Oct/Nov 2025

91. Which of the following is an example of a bank ensuring the 'Right to Transparency'?
(A) Offering a special high-interest deposit only to a select group of customers.
(B) Recommending a high-risk equity fund to a risk-averse senior citizen.
(C) Sharing a customer's transaction history with a third-party marketing agency.
(D) Displaying the minimum balance requirement for savings accounts and charges for non-maintenance on the branch notice board.

Ans :

(D) Displaying the minimum balance requirement for savings accounts and charges for non-maintenance on the branch notice board.
The 'Right to Transparency' involves providing clear, complete, and accessible information to customers. Displaying key details like minimum balance requirements and the associated charges for non-maintenance in a public space like the branch notice board is a direct fulfillment of this commitment, allowing customers to make informed decisions and avoid unexpected fees.

May/June 2012

92. If a bank fails to provide a satisfactory response to a customer's complaint within the stipulated time, the customer can approach the Banking Ombudsman. Who appoints the Banking Ombudsman?
(A) The Indian Banks' Association (IBA)
(B) The Reserve Bank of India (RBI)
(C) The Supreme Court of India
(D) The Ministry of Finance

Ans :

(B) The Reserve Bank of India (RBI)
The Banking Ombudsman Scheme is a mechanism established and administered by the central bank. The Banking Ombudsman is an official appointed by the Reserve Bank of India (RBI) to provide an independent and expeditious forum for the resolution of complaints relating to the services rendered by banks and other regulated entities.

Oct/Nov 2014

93. Which parameter in the BCSBI Code Compliance Rating had the second-highest weightage?
(A) Information dissemination
(B) Grievance redressal
(C) Transparency
(D) Customer feedback

Ans :

(C) Transparency
Reviewing the weightage table, 'Customer Centricity' had the highest weightage at 30. The parameter with the next highest weightage was 'Transparency', which was assigned a weightage of 22. This indicates the significant importance placed on clear and honest communication in

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Ans :

(D) Average
The scoring scale provided for the rating is clearly defined. The range for the 'Average' category is from 60 to less than 70. Since the bank's score of 68 falls squarely within this range, it would be classified under the 'Average' rating category, indicating a moderate level of compliance with the code's standards.

Oct/Nov 2023

85. In order to promote a fair and cordial relationship between customers and their banks, the Code of Bank's Commitment to Customers aims to:
(A) Set minimum standards in the bank's dealings with customers.
(B) Foster confidence in the banking system.
(C) All of the above.
(D) Encourage market forces through competition.

Ans :

(C) All of the above.
The code's objectives are multi-faceted and work together to improve the customer-bank relationship. By setting minimum standards, encouraging competition for higher standards, and fostering overall confidence in the system, the code aims to create an environment conducive to a fair and cordial relationship, which is one of its explicitly stated goals.

May/June 2016

86. Consider the following services:
1. Safe deposit locker facility
2. Foreign exchange services
3. Demat accounts
4. Third-party insurance products

How many of these are covered under the Code of Bank's Commitment to Customers?
(A) One
(B) Four
(C) Two
(D) Three

Ans :

(B) Four
The scope of the code is extensive and covers a wide array of retail banking services. The list of "Products covered" explicitly includes safe deposit locker facility, foreign exchange services including money changing, Demat accounts, and third-party insurance and investment products marketed through bank branches. Therefore, all four services listed are covered.

Oct/Nov 2009

87. What is the primary role of the Principal Nodal Officer (PNO) of a bank in the context of customer grievances?
(A) To act as the first point of contact for any new complaint at the branch.
(B) To represent the customer in proceedings before the Banking Ombudsman.
(C) To conduct an annual audit of the bank's customer service quality.
(D) To serve as the escalation point if a grievance is not redressed at the branch level.

Ans :

(D) To serve as the escalation point if a grievance is not redressed at the branch level.
The PNO is a senior officer who plays a crucial role in the bank's internal grievance redressal hierarchy. If a customer is not satisfied with the resolution at the branch level, they can escalate the complaint to the Principal Nodal Officer, whose contact details are displayed at the branch for this specific purpose.

May/June 2023

88. Assertion (A): The Integrated Ombudsman Scheme 2021 established a Centralised Receipt and Processing Centre at RBI, Chandigarh.
Reason (R): This was done to do away with the jurisdiction of each ombudsman office.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Both statements are true and causally linked. The establishment of a single, centralized center (CRPC) for receiving and processing all complaints is the practical implementation of the policy to remove the separate jurisdictions of the individual ombudsman offices. The CRPC is the mechanism through which the centralized, non-jurisdictional approach is achieved.

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The code's application to card products is comprehensive. The text explicitly states that it covers card products including credit cards, debit cards, etc., and specifies that this includes credit cards offered by subsidiaries of member banks or companies promoted by them, ensuring a consistent standard of service regardless of the issuing entity within the group.

May/June 2005

98. Which of the following is NOT an objective shared by both the Code for Customers and the Code for MSEs?

(A) To give a positive thrust to a specific sector by providing easy access to services.
(B) To promote good and fair banking practices.
(C) To increase transparency.
(D) To foster confidence in the banking system.

Ans :

(A) To give a positive thrust to a specific sector by providing easy access to services.
Promoting fair practices, increasing transparency, and fostering confidence are common objectives for both codes. However, the objective "To give a positive thrust to the MSE sector by providing easy access to efficient banking services" is specific to the Code of Bank's Commitment to Micro and Small Enterprises, reflecting its targeted developmental role for that sector.

Oct/Nov 2022

99. If a customer complaint is relayed over the phone to a bank's designated helpdesk, what is the bank's duty?

(A) To ask the customer to submit the complaint again in writing.
(B) To resolve the issue during the same phone call or else close the complaint.
(C) To provide a complaint reference number and keep the customer informed of the progress.
(D) To record the call and use it for internal training purposes only.

Ans :

(C) To provide a complaint reference number and keep the customer informed of the progress.
The grievance mechanism covers complaints made through various channels, including telephone. If a complaint is relayed over the phone, the bank is obligated to provide a complaint reference number for tracking and must also keep the customer informed of the progress of their complaint within a reasonable period, ensuring accountability and transparency.

May/June 2018

100. Which of the following four statements regarding the BCSBI and its codes are correct?

1. BCSBI was an autonomous body set up as a collaborative effort of RBI and Banks.
2. The Code of Bank's Commitment to Customers was first released in 2008.
3. In the compliance rating, 'Grievance redressal' had a weightage of 15.
4. The codes superseded all regulatory instructions of the RBI on customer service.

(A) 1 and 3 only
(B) 2 and 4 only
(C) 1, 2, and 3 only
(D) 1 and 4 only

Ans :

(A) 1 and 3 only
Statement 1 is correct; BCSBI was an autonomous body formed via collaboration. Statement 3 is correct; the rating table shows 'Grievance redressal' had a 15% weightage. Statement 2 is incorrect; the customer code was released in 2006. Statement 4 is incorrect; the codes did not supersede RBI instructions but coexisted with them.

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The diagram shows a feedback loop. The Marketing Management Activities, performed by managers, lead to decisions. Arrows from these activities point back to the Output Subsystems (Product, Price, Place, Promotion). This signifies that management decisions directly influence and control the elements of the marketing mix, which are then implemented in the market.

May/June 2010

34. According to the observations of McLeod and Rogers, what is a primary reason that the perceived support from an MKIS might be so low in some firms that it seems non-existent?

(A) The marketing information processing has been outsourced to external services.
(B) The system is far too complex for marketing managers to use effectively without training.
(C) The system is primarily used by top management, to the exclusion of other levels.
(D) The organization has replaced its legacy MKIS with a newer, integrated ERP system.

Ans :

(A) The marketing information processing has been outsourced to external services.
The text suggests two possibilities for a low perceived MKIS presence. One is that the support is at such a low level it loses its identity. The other is that managers might rely on external MKIS services for their marketing information needs. This outsourcing would mean that an internal, identifiable MKIS structure is not present.

Oct/Nov 2009

35. What was the general finding regarding the relationship between companies that had an MKIS and their use of a Computer Information System (CIS)?

(A) The majority of companies with an MKIS did not have a company-wide CIS.
(B) There was no statistical correlation found between having an MKIS and a CIS.
(C) The majority of companies with an MKIS also had a company-wide CIS.
(D) Companies with a comprehensive CIS rarely developed a separate MKIS.

Ans :

(C) The majority of companies with an MKIS also had a company-wide CIS.
The study observed a strong link between the two systems. It was found that the majority of companies that had implemented a Marketing Information System (MKIS) also had a broader, company-wide Computer Information System (CIS). This suggests that MKIS often develops within a larger corporate information technology framework rather than in isolation.

May/June 2024

36. Regarding hardware usage in MKIS, what was the specific observation made about supercomputers?

(A) They were identified as the primary hardware platform for most MKIS functions.
(B) Their usage was noted to be increasing rapidly for complex analytical tasks.
(C) They were considered essential for the database management and storage component.
(D) Their usage was observed to be very limited or negligible across MKIS applications.

Ans :

(D) Their usage was observed to be very limited or negligible across MKIS applications.
The text makes a specific and interesting point about hardware. While noting that MKISs are more useful when computer-assisted, it explicitly states that "little use is made of supercomputers." This indicates that the processing needs of most marketing information systems, at the time of the study, did not require the immense power of supercomputing.

Oct/Nov 2020

37. The study on MKIS software usage identified three main categories of corporate-wide software being used. Which of the following was one of these categories?

(A) Artificial intelligence languages
(B) Expert systems and shells
(C) Decision modelling and spreadsheets
(D) Social media analytics platforms

Ans :

(C) Decision modelling and spreadsheets
The three main categories of software identified were: decision modelling and spreadsheets; conventional programming (third-generation languages); and database management. These represent the core software tools used for analysis, application development, and data storage within the MKIS framework. The other options were noted as having limited use or were not mentioned.

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May/June 2013

4. What is the likely fate of firms that are unable to outperform their competitors in satisfying customer objectives?
   (A) They are forced to significantly increase their marketing and advertising budgets.
   (B) They must pivot their entire business model to a niche market with less competition.
   (C) They typically seek to merge with a more successful competitor to ensure survival.
   (D) They are likely to fail and may be unable to stay in business long-term.

Ans :

(D) They are likely to fail and may be unable to stay in business long-term.
The ability to satisfy customer needs more effectively than competitors is a critical determinant of business survival and success. Firms that consistently fail in this regard lose their competitive edge and market share, ultimately making them unable to sustain their operations. Staying in business requires a continuous effort to gather and analyze information for effective marketing actions.

Oct/Nov 2007

5. How is the Marketing Information System (MKIS) described in the context of a marketing organization's structure?
   (A) As a peripheral support function.
   (B) As a temporary project-based initiative.
   (C) As the nerve centre of the organization.
   (D) As a system exclusively for the sales department.

Ans :

(C) As the nerve centre of the organization.
The MKIS is characterized as the "nerve centre" of a marketing organization because it is central to all marketing activities. It collects, processes, analyzes, and disseminates vital information, enabling the organization to understand its market, measure its performance, and make informed decisions, much like a nervous system coordinates the functions of a body.

May/June 2021

6. Which of the following best describes the 'Collecting and assembling data' function of an MKIS?
   (A) Data is collected sporadically and reactively, based only on immediate and specific management requests.
   (B) Data is collected on a continuous basis from a combination of internal and external sources.
   (C) Data is collected exclusively from primary research sources, such as newly commissioned consumer and supplier surveys.
   (D) Data is collected only from published secondary sources, like readily available newspapers and trade journals.

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Ans :

(B) Data is collected on a continuous basis from a combination of internal and external sources.
The data collection function of an MKIS is a continuous and comprehensive process. It involves gathering information from a wide array of sources to provide a holistic view of the market. This includes internal sources like sales reports and external sources, which can be both primary (consumers) and secondary (trade journals, research reports), ensuring a steady information flow.

Oct/Nov 2012

7. Which of the following activities is NOT considered a principal function of an MKIS?
   (A) Processing of data by classifying, tabulating, and summarizing it for analysis.
   (B) Dissemination of relevant and timely information to marketing decision-makers.
   (C) Storage of data in a database for preservation and ready availability for future use.
   (D) Execution of marketing campaigns and promotional activities based on the data.

Ans :

(D) Execution of marketing campaigns and promotional activities based on the data.
The principal functions of an MKIS are centered on information management: collecting, processing, analyzing, storing, and disseminating data. While the information provided by the MKIS is crucial for planning and guiding marketing campaigns, the actual execution of those campaigns is a separate marketing management activity, not a function of the information system itself.

May/June 2009

8. The MKIS function of 'Processing of data' primarily involves which set of activities?

marketing efforts, thereby weakening its overall competitive position.

Oct/Nov 2021

25. Who is credited in the industry with proposing the very first descriptive model of a Marketing Information System (MKIS) almost thirty years ago?
(A) Samuel Smith
(B) McLeod and Rogers
(C) Philip Kotler
(D) Thompson

Ans :

(C) Philip Kotler
While other models exist, the text attributes the first descriptive model of an MKIS, proposed nearly three decades prior, to Philip Kotler. His early work laid the foundation for understanding the structure and function of these systems, conceptualizing MKIS as a form of decision support system that is generally unique to the company it serves.

May/June 2016

26. According to the MKIS model of McLeod and Rogers, which of the following are the three input subsystems?
(A) Internal Accounting, Marketing Intelligence, and Marketing Research
(B) Product, Price, and Promotion
(C) Planning, Organizing, and Controlling
(D) Data, Models, and User Interface

Ans :

(A) Internal Accounting, Marketing Intelligence, and Marketing Research
The McLeod and Rogers model clearly defines the input side of the MKIS. It consists of three primary subsystems responsible for gathering data: Internal Accounting (for internal data), Marketing Intelligence (for environmental data), and Marketing Research (for project-specific data). These three subsystems feed information into the central databases for processing and analysis.

Oct/Nov 2017

27. In the McLeod and Rogers MKIS model, what is the primary function of the output subsystems?
(A) To gather internal and environmental data to populate the system's databases.
(B) To manage the various hardware and software components that comprise the system.
(C) To define the external constraints imposed by the government and competitors.
(D) To utilize the databases to produce marketing management information.

Ans :

(D) To utilize the databases to produce marketing management information.
The output subsystems are the part of the model that transforms data into useful information for managers. They access the databases and model bases to generate routine and ad-hoc reports that support decision-making in key marketing areas like product, price, place, and promotion, effectively converting raw data into actionable intelligence.

May/June 2025

28. Based on the McLeod and Rogers model, the MKIS output subsystems support decisions on marketing mix elements. Which of the following is NOT listed as one of these elements?
(A) Pricing
(B) Staffing
(C) Advertising/Promotion
(D) Distribution

Ans :

(B) Staffing
The model specifies that output subsystems help managers make decisions on the core marketing mix components: pricing, products, advertising/promotion, and distribution/packaging. Staffing, while an important management function, is listed separately as one of the general marketing functions (planning, organizing, staffing, directing, controlling) that the entire MKIS process supports, not as a direct output subsystem.

Oct/Nov 2011

29. Marketing managers use MKIS to make decisions under several constraints. Which of the following correctly lists these constraints?
(A) Technology limitations, budgetary restrictions, and available personnel skills.
(B) Production capacity, supply chain logistics, and current inventory levels.
(C) Economics, government, competitors, and customer needs.
(D) Corporate culture, organizational structure, and internal company politics.

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May/June 2020

12. Information on sales turnover, cost, cash flows, and accounts receivable is typically covered by which component of the MKIS?
(A) Market Intelligence System
(B) Internal Records System
(C) Marketing Research System
(D) Marketing Management and Science System

Ans :

(B) Internal Records System
The Internal Records System, also referred to as Internal Marketing Information, is the component responsible for managing data generated from within the organization. This includes crucial operational and financial data such as sales figures, production costs, cash flow statements, accounts receivable, and inventory levels, providing a foundation for performance analysis.

Oct/Nov 2015

13. A fully networked bank's ability to know the amounts of aggregate deposits and advances at the end of each day is an example of data from which MKIS subsystem?
(A) Marketing Research System
(B) Market Intelligence System
(C) Internal Records System
(D) Marketing Management and Science System

Ans :

(C) Internal Records System
This information is generated from the bank's own daily operations and transactions. Therefore, it is a prime example of data from the Internal Records System. The ability to access this data on a real-time or near real-time basis, such as at the end of the day, showcases an efficient internal information infrastructure within the MKIS framework.

May/June 2011

14. A retail bank manager reviews daily reports generated by the core banking system on the number of new accounts opened and the volume of loan applications. The manager uses this to track branch performance against targets. Which MKIS subsystem is the manager primarily utilizing?
(A) Marketing Research System
(B) Market Intelligence System
(C) Marketing Management and Science System
(D) Internal Records System

Ans :

(D) Internal Records System
The manager is using data generated from the bank's own internal operations—new accounts and loan applications. This information is a classic example of what is contained within the Internal Records System. This subsystem provides a continuous stream of results data, which is essential for monitoring day-to-day performance and operational efficiency.

Oct/Nov 2022

15. What is the primary role of the Marketing Intelligence System within the MKIS framework?
(A) To provide information about developments in the marketing environment and consumption patterns.
(B) To conduct highly specific, project-based studies to solve immediate marketing problems.
(C) To analyze internal sales, cost, and inventory data for operational performance evaluation.
(D) To develop and apply complex mathematical models for pricing and product decisions.

Ans :

(A) To provide information about developments in the marketing environment and consumption patterns.
The Marketing Intelligence System is the component of MKIS that focuses on the external environment. Its main function is to systematically collect and analyze information about external happenings, such as competitor actions, economic trends, technological advancements, and shifts in consumer behavior, to keep management aware of opportunities and threats in the marketplace.

NODIA

May/June 2014

16. Which of the following is typically NOT considered a source of information for the Marketing Intelligence System?
(A) Newspapers, magazines, trade journals, and other published media sources.
(B) Internal sales call reports generated from the company's own salesforce.
(C) Annual reports of trade associations and various chambers of commerce.
(D) Syndicated reports from professional market research agencies like IMRB and MARG.

CHAPTER 22

Marketing Information Systems- A Longitudinal Analysis

Oct/Nov 2019

1. According to the definition provided by Samuel Smith and others, what is the main purpose of a Marketing Information System (MKIS)?

(A) To generate routine operational reports for top management and key stakeholders.

(B) To satisfy customer wants and needs in a way that generates a profit for the company.

(C) To exclusively manage and audit a company's internal accounting and financial data.

(D) To create and maintain a comprehensive database of competitor activities for strategic planning.

Ans :

(B) To satisfy customer wants and needs in a way that generates a profit for the company.

The definition by Samuel Smith and others explicitly states that the main purpose of an MKIS is to aid managerial decision-making in a company's marketing program to satisfy customers, their wants, and their needs, ultimately at a profit. This highlights the customer-centric and profit-oriented nature of the system beyond simple data collection.

May/June 2005

2. What is the primary information-related challenge faced by organizations in the modern market environment?

(A) An oversupply of information that is not of the required type or lacks assured accuracy.

(B) A significant paucity of available information, making it difficult to conduct basic market analysis.

(C) The technical inability of current systems to store the large volumes of data generated daily.

(D) The complete absence of proactive analytical tools within modern decision support systems.

Ans :

(A) An oversupply of information that is not of the required type or lacks assured accuracy.

The contemporary business environment is characterized not by a lack of information, but by an oversupply. The core problem is that this abundant information is often not the specific type required by decision-makers, lacks assured accuracy, and is difficult to manage due to the dynamic nature of the market, making relevant data extraction challenging.

Oct/Nov 2024

3. What is considered the most effective way to achieve integration of a company's functional elements within the marketing domain?

(A) Through the rapid implementation and adoption of the latest information technologies.

(B) By focusing all functional elements solely on outperforming competitors' pricing strategies.

(C) Through the shared organizational goal of effectively satisfying customer objectives and needs.

(D) By thoroughly streamlining the internal reporting structure of the entire sales team.

Ans :

(C) Through the shared organizational goal of effectively satisfying customer objectives and needs.

A successful organization must integrate its functional elements into a smoothly operating unit. In the context of marketing, this integration is best achieved by aligning all activities towards the primary goal of satisfying customer objectives. This customer-centric approach ensures that all departments work cohesively to deliver value and build lasting relationships.

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Oct/Nov 2023

21. What is the distinctive role of the Marketing Management and Science System?

(A) It primarily collects data from a wide variety of external sources like newspapers and journals.

(B) It focuses on storing large volumes of internal data such as sales and cost figures.

(C) It uses computerized tools for advanced analysis of data from other components.

(D) It is responsible for conducting project-based field surveys and direct consumer interviews.

Ans :

(C) It uses computerized tools for advanced analysis of data from other components.

This system acts as the analytical engine of the MKIS. It integrates data from the internal records, intelligence, and research systems and applies sophisticated statistical models and decision-support tools. Its purpose is to analyze complex marketing activities, uncover deeper insights, and help managers make more scientific and prompt decisions to gain a competitive advantage.

May/June 2006

22. Match the MKIS component in List-I with its most appropriate description in List-II.

List-I

P. Internal Records System

Q. Marketing Intelligence System

R. Marketing Research System

S. Marketing Management and Science System

List-II

1. Provides information on external happenings and environmental trends.
2. Involves project-based studies to solve specific marketing problems.
3. Utilizes computerized models to support complex decision-making.
4. Manages data on internal operations like sales turnover and costs.

(A) P-4, Q-1, R-2, S-3

(B) P-1, Q-4, R-3, S-2

(C) P-4, Q-2, R-1, S-3

(D) P-2, Q-1, R-4, S-3

Ans :

(A) P-4, Q-1, R-2, S-3

The correct matching aligns each subsystem with its core function. The Internal Records System (P) deals with internal operational data (4). The Marketing Intelligence System (Q) scans the external environment (1). The Marketing Research System (R) conducts specific, problem-oriented studies (2). The Marketing Management and Science System (S) applies advanced analytical models for decision support (3).

Oct/Nov 2014

23. How did the perception and role of MKIS evolve from its origins in the 1960s?

(A) It shifted from being a strategic tool to becoming a simple data storage system.

(B) It remained purely conceptual as an extension of internal accounting functions.

(C) It was replaced entirely by the broader Computer Information Systems (CIS).

(D) It grew from an outgrowth of marketing research to a critical competitive tool.

Ans :

(D) It grew from an outgrowth of marketing research to a critical competitive tool.

In the 1960s, MKIS was seen as just an extension or outgrowth of traditional marketing research. As competition intensified and data needs grew, it evolved into a comprehensive and indispensable system for understanding the marketplace, reacting to customer needs, and maintaining a competitive edge. It is now considered a vital strategic asset.

May/June 2012

24. For a company that does not have an effective Marketing Information System (MKIS), what is a likely primary consequence?

(A) A severe degradation of its marketing efficiency and overall effectiveness.

(B) A notable increase in the efficiency and effectiveness of its marketing operations.

(C) A significant strengthening of its competitive edge and position in the marketplace.

(D) A mandatory requirement to outsource all of its marketing and sales functions.

Ans :

(A) A severe degradation of its marketing efficiency and overall effectiveness.

An effective MKIS is crucial for making informed and timely decisions. Without it, a company's ability to understand customer needs, monitor the market, and react to changes is significantly hampered. This leads to a severe degradation in both the efficiency and effectiveness of its

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(A) Classifying, tabulating, and summarizing the information to prepare it for analysis.
(B) Evaluating the collected data for accuracy and reliability using advanced statistical tools.
(C) Storing the raw collected data in a secure and readily accessible database environment.
(D) Distributing the unprocessed raw data directly to the relevant department heads.

Ans :

(A) Classifying, tabulating, and summarizing the information to prepare it for analysis.
After data is collected, the 'Processing of data' function organizes it into a usable format. This involves activities like classifying the information into meaningful categories, tabulating it for easy comparison, and summarizing it to highlight key points. This step is essential to prepare the raw data for the subsequent stage of critical analysis and interpretation.

Oct/Nov 2025

9. What is the primary purpose of the 'Analysing the data' function within an MKIS?
(A) To store all collected data in a structured and secure database for future reference.
(B) To systematically collect information from a wide variety of internal and external sources.
(C) To evaluate data and use analytical tools to draw conclusions for decision-making.
(D) To ensure the processed information reaches the right decision-makers in a timely manner.

Ans :

(C) To evaluate data and use analytical tools to draw conclusions for decision-making.
The analysis function moves beyond simple data organization. Its core purpose is to evaluate the collected information for accuracy and reliability and then apply statistical and operations research tools. This rigorous process transforms processed data into actionable insights and conclusions that can be used by management to make informed and effective marketing decisions.

May/June 2017

10. In the logical flow of MKIS functions, what does 'Dissemination of information' directly enable?
(A) The solving of marketing problems and making of management decisions.
(B) The initial collection and assembling of raw data from various primary sources.
(C) The preliminary classification and tabulation of all collected information.
(D) The long-term storage of processed data in a secure, centralized database.

Ans :

(A) The solving of marketing problems and making of management decisions.
Dissemination is the final and crucial function of the MKIS process. It involves ensuring that the analyzed information and derived insights reach the relevant decision-makers. This timely delivery of intelligence enables managers to effectively address marketing challenges, capitalize on opportunities, and make strategic decisions that guide the organization's marketing efforts.

Oct/Nov 2006

11. A complete Marketing Information System (MKIS) is facilitated by four key subsystems. Which of the following lists these four subsystems correctly?
(A) Sales Order System, Promotional Campaign System, Channel Distribution System, and Customer Relationship Management System.
(B) Raw Data Collection System, Statistical Data Analysis System, Management Reporting System, and Executive Decision Support System.
(C) Corporate Financial System, Human Resources Information System, Production Operations System, and Strategic Competitor Analysis System.
(D) Internal Records System, Market Intelligence System, Marketing Research System, and Marketing Management and Science System.

Ans :

(D) Internal Records System, Market Intelligence System, Marketing Research System, and Marketing Management and Science System.
The established structure of a Marketing Information System consists of four distinct but interconnected subsystems. These are the Internal Records System (for internal data), the Market Intelligence System (for environmental happenings), the Marketing Research System (for specific problem-solving), and the Marketing Management and Science System (for advanced analysis and decision-making).

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Ans :

(C) Economics, government, competitors, and customer needs.
The decisions made using MKIS are not made in a vacuum. They are subject to various external and internal forces. The model explicitly identifies the key constraints that marketing managers must consider: the economic environment, government regulations, the actions of competitors, and, most importantly, the needs and wants of the customers being served.

May/June 2008

30. The entire MKIS process, from data gathering to decision-making, should be integrated into organizational strategies to support which set of functions?
(A) Research, Development, and Innovation
(B) Finance, Accounting, and Auditing
(C) Production, Operations, and Logistics
(D) Planning, Organizing, Staffing, Directing, and Controlling

Ans :

(D) Planning, Organizing, Staffing, Directing, and Controlling
The ultimate goal of the MKIS is to support all levels and aspects of marketing management. This encompasses the full range of management functions: planning future strategies, organizing resources, staffing the marketing team, directing marketing efforts, and controlling performance against objectives. The system provides the necessary information to execute these functions effectively.

Oct/Nov 2005

31. Figure 22.1 Framework of a Marketing Information System
According to the diagram, what is the primary role of the 'User/System Interface'?
(A) It allows managers to make inquiries and receive information from the system's databases.
(B) It directly collects raw data from various internal and external sources.
(C) It is the component that processes data using DBMS and MBMS technologies.
(D) It executes marketing management activities like planning and organizing.

Ans :

(A) It allows managers to make inquiries and receive information from the system's databases.
In the framework, the User/System Interface is positioned between the databases/model bases and the marketing managers' activities. It acts as the gateway or dashboard through which users can interact with the system, specifically by making inquiries to generate reports and receive information, enabling them to access the system's intelligence for decision-making.

May/June 2015

32. Figure 22.1 Framework of a Marketing Information System
As depicted in the framework, which three components are shown to directly feed data into the 'Data Bases' and 'Model Bases'?
(A) Customers, Competitors, and Governments
(B) Internal Accounting, Marketing Research, and Marketing Intelligence
(C) Product, Price, and Place
(D) Top Management, Middle Management, and Operating Management

Ans :

(B) Internal Accounting, Marketing Research, and Marketing Intelligence
The diagram clearly illustrates the flow of information. The three input subsystems—Internal Accounting, Marketing Research, and Marketing Intelligence—are shown with arrows pointing directly towards the central block containing the Data Bases and Model Bases. This indicates that they are the primary sources that gather and provide the raw data for the system.

Oct/Nov 2018

33. Figure 22.1 Framework of a Marketing Information System
In the MKIS framework shown, the output from the 'Marketing Management Activities' (Plan, Organise, etc.) is directed towards influencing which element?
(A) The Data and Information Sources
(B) The Output Subsystems (Product, Price, Place, Promotion)
(C) The User/System Interface
(D) The Marketing Management levels (Top, Middle, Operating)

Ans :

(B) The Output Subsystems (Product, Price, Place, Promotion)

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Ans :

(B) Internal sales call reports generated from the company's own salesforce.
Sales call reports generated by a company's own sales team are a source of internal data and thus belong to the Internal Records System. The Marketing Intelligence System, in contrast, focuses on gathering information from external sources such as published media, trade associations, government reports, and professional research agencies to monitor the broader market environment.

Oct/Nov 2008

17. Organizations like the Central Statistical Organization and the National Council of Applied Economics and Research serve as important information sources for which MKIS component?
(A) Internal Records System
(B) Marketing Intelligence System
(C) Marketing Research System
(D) Marketing Management and Science System

Ans :

(B) Marketing Intelligence System
These organizations provide broad economic and market data that is external to any single firm. This type of information about the general market and economic environment is a key input for the Marketing Intelligence System. It helps a company understand macroeconomic trends and market conditions that could impact its business operations and strategic plans.

May/June 2023

18. The Marketing Research System is specifically concerned with which of the following?
(A) Obtaining specific information pertaining to a well-defined marketing problem.
(B) Gathering general, ongoing information about the broader economic environment.
(C) Tracking internal operational metrics like sales turnover, cost, and cash flow.
(D) Disseminating routine, scheduled performance reports to middle management.

Ans :

(A) Obtaining specific information pertaining to a well-defined marketing problem.
Unlike the continuous monitoring of the Marketing Intelligence System, the Marketing Research System is project-based. It is employed to gather and analyze data to address a specific, well-defined marketing problem or opportunity, such as understanding consumer behavior for a new product, evaluating channel effectiveness, or assessing competitive threats in a particular segment.

Oct/Nov 2010

19. The use of techniques such as field surveys, consumer interviews, and dealer surveys is most characteristic of which MKIS component?
(A) Internal Records System
(B) Market Intelligence System
(C) Marketing Research System
(D) Marketing Management and Science System

Ans :

(C) Marketing Research System
These techniques are methods for collecting primary data specifically for the purpose of a particular study. This project-specific data collection is the hallmark of the Marketing Research System. It is used to gather firsthand information directly from sources like consumers or dealers to find solutions for a defined marketing problem at hand.

May/June 2018

20. A good MKIS should satisfy several basic requirements. Which of the following is NOT considered one of these requirements?
(A) It should be a unified and centralized system.
(B) It should be cost-effective in its maintenance.
(C) It should provide information regularly and quickly.
(D) It should provide all available information without any filtering.

Ans :

(D) It should provide all available information without any filtering.
A key requirement for a good MKIS is that it should be 'selective in information processing'. Providing all available information without filtering would lead to information overload, making it difficult for managers to identify relevant insights. An effective system filters and summarizes data to provide pertinent, actionable intelligence rather than a deluge of raw data.

NODIA

May/June 2019

38. In the context of software usage within MKIS, which types of advanced software were found to be "not meeting their assured demand"?

(A) Spreadsheets and database management systems.
(B) Expert systems and artificial intelligence languages.
(C) Conventional third-generation programming languages.
(D) Decision modelling and standard reporting tools.

Ans :

(B) Expert systems and artificial intelligence languages.
The analysis of software usage revealed a gap between the promise and the actual adoption of certain advanced technologies. It was apparent that expert systems and artificial intelligence (AI) languages, despite their potential, were not being utilized to the extent that might have been expected, thus failing to meet their "assured demand" in the corporate environment.

Oct/Nov 2013

39. Consider the following two statements regarding computer usage in MKIS:

I. A majority of the companies that had MKISs also had company-wide computer information systems (CISs).
II. Expert systems and artificial intelligence languages were widely adopted in MKIS as they met their assured demand.

Which of the statements is/are correct?
(A) Only I
(B) Only II
(C) Both I and II
(D) Neither I nor II

Ans :

(A) Only I
Statement I is correct; the text explicitly states that the majority of firms with an MKIS also had a company-wide CIS. Statement II is incorrect; the text clearly indicates that expert systems and artificial intelligence languages were "not meeting their assured demand," meaning they were not widely adopted or used as expected.

May/June 2022

40. A study on computer usage in MKIS revealed that when asked what was useful, 31% of responses were "reports," 23% were "different managers' information needs," and 18% were "data/file retrieval."
What does this finding suggest about the focus of marketing managers?

(A) They are more focused on the informational means rather than the decision-making ends.
(B) They primarily focus on the strategic end goals that drive their information requests.
(C) They demonstrate high skill levels in the application of advanced analytical software tools.
(D) They consistently prioritize long-term strategic planning over short-term operational tasks.

Ans :

(A) They are more focused on the informational means rather than the decision-making ends.
The prevalence of answers like "reports" and "data retrieval" indicates a focus on the tangible outputs of the system. The text explicitly interprets this by stating, "Obviously, marketing managers focus on their means (the information) and not their ends (the needs)." This suggests a preoccupation with getting data rather than defining the decision it supports.

Oct/Nov 2016

41. According to the statistics provided on communications of information, what percentage of firms utilized electronic mail for inter-office communication?

(A) 9 per cent
(B) 10 per cent
(C) 68 per cent
(D) 26 per cent

Ans :

(C) 68 per cent
The text provides specific figures on the adoption of different communication channels. While traditional phone/voicemail was common, other channels were also used. Electronic mail was a significant channel, with 68 per cent of firms reporting its use for communication between branches and the main office, highlighting its importance in corporate communications.

May/June 2007

42. What was a surprising finding regarding the use of technology for inter-branch conferences in the surveyed firms?

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Oct/Nov 2009

77. What significant benefit does an MKIS offer when decision-makers are faced with conflicting information from different sources?

(A) It automatically discards all of the conflicting data points to simplify analysis.

(B) It automatically escalates all conflicts to top management for a final decision.

(C) It helps in sorting out conflicting information to prevent confusion and misdirection.

(D) It averages out the conflicting data points to create a single, unified figure.

Ans :

(C) It helps in sorting out conflicting information to prevent confusion and misdirection.

In a complex environment, it is common to receive conflicting signals from different sources. A key advantage of a structured MKIS is its ability to integrate and reconcile this information. The system helps in identifying, analyzing, and sorting out these contradictions, which prevents confusion and ensures that decisions are not based on misleading data.

May/June 2024

78. The ability to provide instant access to company-wide information and facilitate cross-sharing of data is an MKIS advantage that directly enables what outcome?

(A) Increased departmental information silos and data protection.

(B) A significant reduction in overall IT infrastructure costs.

(C) Stricter information access controls for low-level employees.

(D) Better, more informed service to the customer across touchpoints.

Ans :

(D) Better, more informed service to the customer across touchpoints.

One of the powerful advantages of an integrated MKIS is that it breaks down information silos. By allowing for the integration of information from various sources and enabling cross-sharing of data across departments, employees gain a more holistic view of the customer. This comprehensive access to information enables them to provide better, faster, and more personalized service.

Oct/Nov 2020

79. How does an MKIS specifically help in developing and delivering customer-oriented offers?

(A) By creating actionable customer insights from routine transactional data.

(B) By generating generic, one-size-fits-all marketing campaigns for mass audiences.

(C) By primarily monitoring employee performance and overall team productivity.

(D) By automating the company's back-office accounting and payroll functions.

Ans :

(A) By creating actionable customer insights from routine transactional data.

An MKIS transforms raw, routine transactional data into valuable intelligence. By analyzing purchasing patterns, frequency, and other behaviors, the system helps create deep customer insights. These insights are then used to develop and deliver targeted, customer-oriented offers and communications, which are more relevant and effective, thereby building better customer relationships.

May/June 2019

80. In what capacity does an MKIS function as a "total knowledge-management mechanism"?

(A) It only stores explicit knowledge found in official documents and formal reports.

(B) It supports the capture of knowledge and ensures its flow to where it is needed.

(C) It replaces the need for experienced managers and their tacit human knowledge.

(D) It exclusively manages knowledge related to financial and legal regulations.

Ans :

(B) It supports the capture of knowledge and ensures its flow to where it is needed.

The MKIS serves as a knowledge management system by capturing knowledge from various sources, including data and human expertise. It then makes this captured knowledge flow throughout the organization to the decision-makers who require it. Crucially, it ensures this knowledge is available in a readily usable form, transforming scattered information into an accessible corporate asset.

NODIA

This level of management is typically concerned with tactical decisions and control functions, which align well with the reporting and analysis capabilities of early information systems, making them the primary beneficiaries.

Oct/Nov 2007

47. Over time, what significant change was observed in the perceived distribution of MKIS support among different management levels?

(A) More companies thought low-level management received more support than top-level management.
(B) Top-level management began receiving the vast majority of the MKIS support.
(C) Support for all three levels of management became perfectly balanced and equal.
(D) Support for middle-level management was withdrawn in favor of top-level management.

Ans :

(A) More companies thought low-level management received more support than top-level management.
The distribution of support changed significantly from the initial focus on middle management. A key observation was that "more companies thought that low-level management were receiving more MKIS support than the top-level." This suggests a shift towards supporting operational decisions and control at the lower tiers of the management hierarchy.

May/June 2021

48. With respect to management functions, which two areas were identified as receiving the most support from the MKIS?

(A) Organizing and Staffing
(B) Planning and Controlling
(C) Staffing and Directing
(D) Directing and Organizing

Ans :

(B) Planning and Controlling
The analysis of MKIS support for management functions revealed a clear pattern. The text states that "planning and controlling were the two areas receiving the most support from the MKIS." This indicates that the system was heavily used for setting future directions (planning) and for monitoring performance against those plans (controlling).

Oct/Nov 2012

49. What is identified as a potential negative consequence of how marketing managers utilize the MKIS for management functions?

(A) They focused too little on planning and far too much on implementation.
(B) They may have focused too much on planning and too little on implementation and controls.
(C) They disregarded the controlling function of management entirely in favor of planning.
(D) They used the system more for staffing and organizing than for strategic planning.

Ans :

(B) They may have focused too much on planning and too little on implementation and controls.
The text points out a double-edged sword. On the positive side, MKIS attracted managers to use it for planning. However, the negative side was a potential imbalance, where "marketing managers may have focused too much on planning and too little on implementation and controls," suggesting a gap between creating plans and executing/monitoring them.

May/June 2009

50. A bank's marketing department uses its MKIS extensively at the beginning of the year to create detailed marketing plans and allocate budgets. However, throughout the year, the system is rarely used to track the progress of marketing campaigns or make adjustments. This behavior reflects which potential negative tendency in MKIS usage?

(A) An excessive focus on planning with too little on implementation and controls.
(B) An over-focus on implementation and controls at the expense of proper planning.
(C) A complete failure to use the information system for any kind of planning activities.
(D) A lack of adequate system support for the needs of middle-level management.

Ans :

(A) An excessive focus on planning with too little on implementation and controls.
This scenario perfectly illustrates the negative side of MKIS usage mentioned in the text. The department is strong on the planning front but weak on the follow-through, which includes implementation and control. This reflects the

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order quantities and approving customer credit. These are routine, operational decisions where the underlying logic is often automated within larger transactional systems, reducing the need for standalone models.

May/June 2023

60. Computer-assisted decision models are most likely to be used for which set of marketing activities?

(A) Hiring new sales staff, conducting interviews, and managing training programs.
(B) Formulating pricing strategy, computing operating budget, and evaluating new products.
(C) Performing daily data entry, routine file maintenance, and system backups.
(D) Conducting customer satisfaction surveys and analyzing qualitative interview feedback.

Ans :

(B) Formulating pricing strategy, computing operating budget, and evaluating new products.
The text specifies the areas where computer-assisted models are most prevalent. It lists them as being used for "formulating pricing strategy, computing operating budget, evaluating new products and deleting products." These are all complex, data-intensive tasks where the analytical power of computer models provides a significant advantage in decision-making.

Oct/Nov 2010

61. A bank's product manager is using a specialized software model to analyze market potential, forecast costs, and project profitability to decide if a newly proposed credit card should be launched. This application of a decision model aligns with its use for which activity?

(A) Approving individual customer credit applications.
(B) Determining inventory reorder points for brochures.
(C) Evaluating new products before market introduction.
(D) Computing economic order quantities for marketing materials.

Ans :

(C) Evaluating new products before market introduction.
The scenario describes a comprehensive analysis to assess the viability of a new product before its launch. This directly corresponds to the activity of "evaluating new products," which is listed as one of the key applications for computer-assisted decision models. Such models help structure the complex analysis required for major strategic decisions like product introductions.

May/June 2018

62. As described in the section on MKIS performance, which three subsystems are identified as the 'data gathering subsystems'?

(A) Product, price, and distribution subsystems.
(B) Planning, directing, and controlling subsystems.
(C) DBMS, MBMS, and User Interface subsystems.
(D) Marketing research, marketing intelligence, and internal accounting.

Ans :

(D) Marketing research, marketing intelligence, and internal accounting.
The text reiterates the structure of the MKIS by categorizing its components by function. It explicitly states that "The data gathering subsystems are; marketing research, marketing intelligence, an internal accounting." These are the three components responsible for collecting information from the external environment and from within the organization itself.

Oct/Nov 2023

63. The 'processing subsystems' of an MKIS are described as producing information about which four key areas of the marketing mix?

(A) Product, price, distribution, and promotion.
(B) Customers, competitors, suppliers, and government.
(C) Sales, costs, profits, and cash flow.
(D) Planning, organizing, staffing, and directing.

Ans :

(A) Product, price, distribution, and promotion.
After data is gathered, it is processed to create meaningful output. The text specifies that "The processing subsystems produce information about the product, price, distribution and promotion." This output directly supports managerial decision-making across the four primary components of the marketing mix, also known as the 4Ps of marketing.

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Oct/Nov 2015

55. Decision models available to marketing managers were initially developed to provide aid primarily for which two types of decisions?
(A) Promotion and place decisions
(B) Staffing and organizing decisions
(C) Advertising and distribution decisions
(D) Price and product decisions

Ans :

(D) Price and product decisions
The text clearly states the original purpose of many decision models within the marketing context. It says, "Most of them were developed to aid in price and product decisions." This highlights the early focus on using quantitative models to optimize two of the most critical and data-intensive areas of the marketing mix.

May/June 2011

56. The use of decision models within MKIS has shown an increase for what type of management tasks?
(A) Less-structured tasks like product deletion and media selection.
(B) Well-structured, routine, and computationally simple tasks.
(C) Repetitive and time-consuming administrative data entry tasks.
(D) Basic report generation and data entry validation tasks.

Ans :

(A) Less-structured tasks like product deletion and media selection.
The text indicates a shift in how decision models are applied. Their use has grown for "less-structured tasks such as product deletion, advertising media selection, salesperson assignment and delivery routing." These are complex decisions that involve more variables and judgment, where models can provide significant analytical support and structure.

Oct/Nov 2022

57. The use of decision models for one particular less-structured task was noted to have "more than doubled." Which task was this?
(A) Product deletion
(B) Salesperson assignment
(C) Selection of advertising media
(D) Formulating pricing strategy

Ans :

(C) Selection of advertising media
While model usage increased for several less-structured tasks, the text makes a special note of one specific area. It highlights that "One particular task, selection of advertising media had more than doubled in its use." This points to the growing complexity of media planning and the increasing reliance on models to optimize media spend.

May/June 2014

58. In contrast to their growing use for less-structured tasks, decision models have shown a significant decrease in use for what type of tasks?
(A) Well-structured tasks like computing EOQ and approving credit.
(B) Strategic, complex, and long-term planning tasks.
(C) Creative, innovative, and new product development tasks.
(D) Customer relationship management and service recovery tasks.

Ans :

(A) Well-structured tasks like computing EOQ and approving credit.
The trend for well-structured, routine, and computationally straightforward tasks has been the opposite of that for less-structured ones. The text states that "the well-structured tasks such as computing economic order quantities, determining reorder points and approving customer credit had shown significant decreases in model use," likely because these calculations became automated or embedded in other systems.

Oct/Nov 2008

59. Which of the following is provided as an example of a well-structured task for which the use of decision models has significantly decreased?
(A) Evaluating new products
(B) Deleting existing products
(C) Formulating pricing strategy
(D) Determining reorder points

Ans :

(D) Determining reorder points
The text explicitly lists several well-structured tasks where model usage has declined. Among the options provided, "determining reorder points" is cited directly, along with computing economic

NODIA

identified tendency for managers to focus too much on creating plans and not enough on using the system to monitor and manage their execution.

Oct/Nov 2025

51. In the earlier stages of MKIS development, which marketing mix ingredient received the most support from the system?
(A) Price
(B) Place (Distribution)
(C) Product
(D) Promotion

Ans :

(C) Product
The text describes the historical focus of MKIS support for marketing mix decisions. It explicitly states, "Earlier, product-related decisions were receiving the most MKIS support." This suggests that initial applications of the system were heavily geared towards areas like new product development, product performance analysis, and managing product portfolios.

May/June 2017

52. What trend was observed regarding MKIS support for price-related decisions as the systems evolved?
(A) Support for price-related decisions remained significantly lower than for product decisions.
(B) Support for price-related decisions was abandoned in favor of promotion-related decisions.
(C) Price-related decisions were found to be entirely unsupported by the MKIS framework.
(D) Support for price-related decisions took a small lead ahead of that for product-related ones.

Ans :

(D) Support for price-related decisions took a small lead ahead of that for product-related ones.
After the initial phase where product decisions received the most support, a shift occurred. The text notes that "Later, support for price-related decisions took a small lead ahead of that for product related ones." This indicates a growing recognition of the importance of data-driven pricing strategies and the system's ability to support them.

Oct/Nov 2006

53. Which statement best describes the contemporary state of MKIS support for the various marketing mix decisions?
(A) It remains heavily focused on only product-related decisions as in its early stages.
(B) It primarily supports only price and promotion decisions to the exclusion of others.
(C) It supports marketing mix decisions on a more balanced and evenly distributed basis.
(D) It has shifted to focus almost exclusively on place (distribution) related decisions.

Ans :

(C) It supports marketing mix decisions on a more balanced and evenly distributed basis.
The evolution of MKIS did not stop at favoring one element over another. The text concludes the discussion on this topic by stating that the system now "supports marketing mix decisions on a more balanced basis." This implies a maturation of the MKIS, where it provides valuable information across all key areas of the marketing mix.

May/June 2020

54. Consider the following statements:
Assertion (A): Over time, MKIS support for the different elements of the marketing mix has become more evenly distributed.
Reason (R): While product-related decisions initially received the most support, price-related decisions later gained prominence, leading to a more balanced approach.
(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
(C) (A) is true, but (R) is false.
(D) (A) is false, but (R) is true.

Ans :

(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
Assertion (A) is true, as the text states MKIS now supports mix decisions on a "more balanced basis." Reason (R) is also true, as it accurately describes the historical progression from a product focus to price gaining a lead. Reason (R) correctly explains this evolution, showing how the shift in focus contributed to the current balanced state.

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May/June 2006

64. While most views of MKIS focused on it being a data bank or a system for answering questions, how did a minority of managers perceive the system?

(A) As a tool used exclusively for internal accounting and financial reporting.
(B) As a group of subsystems each representing an area of marketing activity.
(C) As an outdated legacy system that was being replaced by the internet.
(D) As a simple communication tool for sending and receiving inter-office memos.

Ans :

(B) As a group of subsystems each representing an area of marketing activity.
The text notes that "Only few managers thought that the MKIS was 'a group of subsystems – each representing an area of marketing activity – product, price, distribution channels and promotion.'" This view sees the system's structure as mirroring the marketing mix itself, a more activity-oriented perspective than simply seeing it as a data repository.

Oct/Nov 2014

65. Based on the discussion of MKIS performance, which of the following statements is/are correct?

I. MKIS serves as a data bank, storing environmental data for use by computer programs.
II. The data gathering subsystems are marketing research, marketing intelligence, and internal accounting.
III. The majority of managers viewed MKIS as a group of subsystems representing each area of marketing activity.

(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Ans :

(A) I and II only
Statement I is correct, as the text states MKIS "serves as a data bank that stores data from the environment." Statement II is also correct, as it lists the three data gathering subsystems explicitly. Statement III is incorrect; the text specifies that "Only few managers" held this view, not the majority.

May/June 2012

66. Recommendation 1 from the text: "Computers are needed by marketing managers, for retrieving data and then storing and processing it."
This statement implies a specific sequence of actions for data handling by managers. What is the correct sequence?

(A) Retrieving → Storing → Processing
(B) Storing → Processing → Retrieving
(C) Processing → Retrieving → Storing
(D) Storing → Retrieving → Processing

Ans :

(A) Retrieving → Storing → Processing
The recommendation outlines a logical flow of data management. A manager first needs to access or 'retrieve' the data from a source or database. Once retrieved, the data may need to be 'stored' locally or in a working file. Finally, the data is 'processed' or analyzed to generate insights for decision-making.

Oct/Nov 2021

67. Recommendation 2 from the text: "Internal accounting continues to be the most important source of MKIS information while the use of marketing intelligence and marketing research, as information sources, are more balanced."
What does this recommendation imply about Marketing Intelligence and Marketing Research?

(A) They have become more important than internal accounting as information sources.
(B) Their usage is declining significantly in favor of internal accounting data.
(C) They are used with similar frequency or emphasis relative to each other.
(D) They are being merged into a single, combined information source for simplicity.

Ans :

(C) They are used with similar frequency or emphasis relative to each other.
The recommendation highlights that while internal accounting remains the top source, the other two key information sources—marketing intelligence and marketing research—have achieved a state of equilibrium in their usage. The term "more balanced" suggests that neither one significantly dominates the other; they are used in a more comparable or complementary fashion.

NODIA

May/June 2016

68. According to the recommendations on MKIS usage patterns, the collection of data about which two groups is popular but also noted to be less computerized?
(A) Existing customers and key suppliers
(B) Government agencies and trade associations
(C) Current employees and company shareholders
(D) Competitors and prospective customers

Ans :

(D) Competitors and prospective customers
Recommendation 3 makes a clear distinction. It states that while collecting data about customers is common, the "Collection of data about competitors and prospective customers is also popular, but this is less computerized." This points to a gap in the systematic digitization and integration of intelligence about non-customer entities in the market.

Oct/Nov 2017

69. The summary of MKIS usage patterns identifies which group as the "major users" of the system?
(A) Top-level managers
(B) Low-level managers
(C) Middle-level managers
(D) IT specialists

Ans :

(C) Middle-level managers
Recommendation 4 explicitly states, "The major users of MKIS are the middle-level managers." This reinforces the finding that these systems are heavily utilized by managers who are responsible for tactical planning, execution, and control, serving as a bridge between top-level strategy and operational-level activities, consistent with the historical role of MKIS.

May/June 2025

70. Reaffirming earlier findings, the recommendations state that which two management functions continue to use the most MKIS support?
(A) Organizing and Staffing
(B) Planning and Controlling
(C) Directing and Leading
(D) Innovating and Researching

Ans :

(B) Planning and Controlling
Recommendation 5 reiterates a key finding about how MKIS is applied within the management process. It states, "Planning and controlling are still the management functions using most MKIS support." This shows a persistent pattern of using the system to set goals and measure performance against them, underlining its role in strategic execution.

Oct/Nov 2011

71. The recommendations point out that two types of decisions consume most of the MKIS resources. Which two are they?
(A) Place and promotion related decisions
(B) Hiring and training related decisions
(C) Budgeting and scheduling related decisions
(D) Price and product related decisions

Ans :

(D) Price and product related decisions
Recommendation 6 specifies where system resources are most heavily focused. It notes, "Price and product related decisions consume most of the MKIS resources." This aligns with the earlier finding that decision models were also primarily developed for these two critical areas of the marketing mix, indicating their high data and analysis requirements.

May/June 2008

72. Recommendation 8 from the text discusses the computer software used in an MKIS.
According to this recommendation, which types of software are specified as "not used very much"?
(A) Statistical analysis software, logic programming languages, and expert system shells
(B) Modelling/spreadsheets and database management systems
(C) Conventional/third-generation programming languages
(D) Office productivity suites and standard email clients

Ans :

(A) Statistical analysis software, logic programming languages, and expert system shells
Recommendation 8 draws a clear line between commonly used and rarely used software. It first lists the common ones (modelling/spreadsheets, 3GL, DBMS). It then explicitly states that "Statistical analysis software, logic programming

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languages and expert system shells are not used very much," identifying a specific set of underutilized advanced analytical tools.

Oct/Nov 2005

73. Based on the patterns of MKIS usage summarized in the recommendations, which of the following software types is identified as being actively used?
(A) Expert system shells
(B) Logic programming languages
(C) Database management systems
(D) Statistical analysis software

Ans :

(C) Database management systems
Recommendation 8 lists the software that is being used in an MKIS. This list includes "modelling/spreadsheets, conventional/third-generation programming languages and database management systems." The other options are explicitly mentioned as software that is "not used very much," making database management systems the correct choice among the options provided.

May/June 2015

74. A bank has a sophisticated MKIS that provides detailed daily reports on its own customer transactions and account balances. However, its data on what other local banks are offering for fixed deposits is collected manually and updated infrequently. This situation directly reflects which pattern identified in the MKIS recommendations?
(A) Customer data is collected, but competitor data is less computerized.
(B) The major users of the MKIS are the middle-level managers.
(C) Decision models are used mostly for product and price decisions.
(D) Planning and controlling are the most supported management functions.

Ans :

(A) Customer data is collected, but competitor data is less computerized.
This case perfectly illustrates Recommendation 3. The bank excels at collecting and computerizing its own internal customer data but lags in systematically computerizing data about its competitors. This reflects the common pattern that "Collection of data about competitors... is less computerized" compared to the firm's own customer data.

Oct/Nov 2018

75. Which of the following is a primary advantage of the MKIS framework related to data handling?
(A) It completely eliminates the need for any human intervention in the data analysis process.
(B) It focuses exclusively on collecting external data while ignoring all internal company data.
(C) It guarantees that all marketing decisions made using the system will be successful.
(D) It provides procedures for systematic collection, analysis, storage, and retrieval of data.

Ans :

(D) It provides procedures for systematic collection, analysis, storage, and retrieval of data.
A key advantage of MKIS is that it provides structure and discipline to the information management process. It establishes a formal framework with defined procedures and methods for the entire data lifecycle, ensuring that data collection is regular, planned, and systematic, which is a significant improvement over ad-hoc or chaotic approaches.

May/June 2010

76. How does an MKIS contribute to improving the quality of information used for decision-making?
(A) By sourcing all information from a single, pre-verified external provider.
(B) It helps improve the data capture process and checks for reliability and quality.
(C) By automatically correcting any errors or inconsistencies found in the raw data.
(D) By severely limiting the amount of data collected to prevent information overload.

Ans :

(B) It helps improve the data capture process and checks for reliability and quality.
An MKIS is not just about quantity; it's about quality. The system incorporates processes that improve how data is captured initially and includes built-in checks and validations. This helps ensure that the information entering the system is reliable, consistent across different sources, and of high quality, which is fundamental for sound decision-making.

NODIA

(A) None of the firms utilized any hypertext or hypermedia technology for conferencing.
(B) Video conferences were utilized by the vast majority of the firms for daily meetings.
(C) Electronic bulletin boards had completely replaced most traditional communication methods.
(D) Computer conferences were found to be the most popular form of inter-branch communication.

Ans :

(A) None of the firms utilized any hypertext or hypermedia technology for conferencing.
The study highlighted the limited use of advanced communication technologies. The use of computer conferences (9%) and video conferences (10%) was low. The most surprising finding was the complete absence of hypertext or hypermedia technologies for inter-branch conferences, indicating a slow adoption of these specific tools for internal collaboration at the time.

Oct/Nov 2019

43. Among the different sources of MKIS information, which was regarded as the most important?
(A) Marketing research
(B) Competitor analysis
(C) Marketing intelligence
(D) Internal accounting

Ans :

(D) Internal accounting
The text explicitly states that "Internal accounting was regarded as the most important source of MKIS information." This highlights the foundational role that a company's own operational and financial data plays in its marketing decision-making. This internal data provides a baseline for performance measurement and is readily available and generally reliable for analysis.

May/June 2005

44. Regarding the content of information within the MKIS, what percentage of customer data was found to be computerized?
(A) 26 per cent
(B) 93 per cent
(C) 68 per cent
(D) 100 per cent

Ans :

(B) 93 per cent
The study found a high level of computerization for a specific type of environmental data. It is noted that "most (93 per cent) customer data were computerized." This indicates that companies prioritized digitizing information about their existing customers, which is essential for sales analysis, relationship management, and targeted marketing efforts.

Oct/Nov 2024

45. What was the observed status of computerization for competitor information sources like corporate annual reports and sales call reports?
(A) Most of these sources were fully computerized and available on a real-time basis.
(B) These sources were partially computerized, with only key data points extracted.
(C) Most of these sources were not computerized and remained in physical formats.
(D) These sources were not considered part of the MKIS and were therefore not tracked.

Ans :

(C) Most of these sources were not computerized and remained in physical formats.
The text draws a distinction between the computerization of different types of information. While customer data was largely computerized, it states that for competitor information sourced from corporate annual reports, sales call reports, and clipping services, "most of these were not computerized." This points to a gap in the systematic digital capture of competitive intelligence.

May/June 2013

46. Initially, which level of management was predominantly supported by Marketing Information Systems?
(A) Top-level management
(B) Low-level management
(C) All levels were supported equally from the beginning.
(D) Middle-level management

Ans :

(D) Middle-level management
The text describes an evolution in MKIS support. It explicitly states that "Initially, MKISs were mostly supporting middle-level management."

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Oct/Nov 2013

81. Despite many surveyed companies having sophisticated CISs and MKISs, what deficiency was commonly observed?

(A) A significant deficiency in computerizing information about their own existing customers.

(B) A deficiency in computerizing information about the economy, competitors, and prospects.

(C) A fundamental inability to store and manage the large volumes of daily transactional data.

(D) A complete and noticeable lack of system support for the needs of middle-level managers.

Ans :

(B) A deficiency in computerizing information about the economy, competitors, and prospects.

The concluding observations point out a significant limitation even in sophisticated systems. While internal and customer data might be well-managed, there is often a "deficiency in computerizing information about governments, economy, competitors and prospects across companies." This indicates a weakness in the systematic capture and use of broader environmental and competitive intelligence.

May/June 2022

82. A bank's MKIS analyzes customer transaction histories to identify individuals who frequently make large international transfers. The system then prompts relationship managers to offer these clients specialized forex services and wealth management advice. This action demonstrates which specific advantage of an MKIS?

(A) It creates customer insights from routine data to deliver customer-oriented offers.

(B) It provides tailor-made, customized information for specific user needs.

(C) It helps in sorting out and reconciling conflicting information from different sources.

(D) It facilitates the repetitive use of the same information for many different purposes.

Ans :

(A) It creates customer insights from routine data to deliver customer-oriented offers.

This case is a direct application of using the MKIS to build better customer relationships. The bank is not just collecting data; it is analyzing routine transactions to gain an 'insight' (customers with international financial needs). It then uses this insight to develop and deliver a highly relevant, 'customer-oriented offer' (specialized forex and wealth services).

NODIA

Oct/Nov 2016

83. Which of the following statements about the advantages of MKIS are correct?

I. It provides a framework for systematic and planned data collection.

II. It helps in sorting out conflicting information from various sources.

III. It creates customer insights from routine transactional data.

IV. It serves as a total knowledge-management mechanism.

(A) I and II only

(B) I, II, and III only

(C) II, III, and IV only

(D) I, II, III, and IV

Ans :

(D) I, II, III, and IV

All four statements correctly identify key advantages of a Marketing Information System as discussed in the text. It provides a systematic framework (I), helps resolve conflicting data (II), generates actionable customer insights from transactional data (III), and functions as a comprehensive knowledge management tool (IV), making it a multifaceted asset for a marketing organization.

May/June 2007

84. Identify the incorrect statement regarding the advantages of a Marketing Information System (MKIS).

(A) It provides tailor-made information formatted for specific decision-making needs.

(B) The information flow to decision-makers takes place in a ready for decision form.

(C) It helps in improving the data capture process and checks for data quality and reliability.

(D) It primarily focuses on one-time data collection for specific, ad-hoc projects.

Ans :

(D) It primarily focuses on one-time data collection for specific, ad-hoc projects.

This statement is incorrect because a core feature of an MKIS is its provision of a framework

Ans :

(C) The Intelligence system involves continuous scanning, while the Research system is for project-based problems.
This is the core distinction between the two. The Marketing Intelligence System is an ongoing process of monitoring the external environment for general trends and events ("happenings"). In contrast, the Marketing Research System is activated to address a specific, defined problem or opportunity with a formal, project-based study to collect and analyze relevant data.

May/June 2014

100. Which of the following statements about the overall MKIS model and its application are correct?

I. The MKIS model of McLeod and Rogers consists of input and output subsystems.
II. A key requirement of a good MKIS is that it should be selective in information processing.
III. MKIS support for marketing mix decisions has become more balanced over time.
IV. Computer-assisted decision models are most likely used for well-structured tasks like approving customer credit.

(A) I and II only
(B) I, II, and III only
(C) II, III, and IV only
(D) I, II, III, and IV

Ans :

(B) I, II, and III only
Statements I, II, and III are all correct summaries of key concepts from the chapter. Statement IV is incorrect; the text explicitly states that the use of decision models for well-structured tasks like approving customer credit has shown a significant decrease, while their use for less-structured tasks has increased.

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the system should filter, prioritize, and present the most relevant information to decision-makers, rather than overwhelming them with a flood of raw data, thereby enhancing its utility and effectiveness.

Oct/Nov 2007

89. "In today's global marketplace, the success of a company does not depend on how much the company uses latest technologies but on how well it can gather, manage and utilize pertinent information and integrate it into the marketing managers' decision-making processes."
What is the key implication of this statement for achieving a successful MKIS?
(A) The amount of financial investment in technology is the primary determinant of success.
(B) Global marketplaces require fundamentally less information than domestic marketplaces.
(C) The effective use and integration of information is more critical than the technology itself.
(D) Marketing decision-making processes should be kept independent of the information system.

Ans :

(C) The effective use and integration of information is more critical than the technology itself.
This statement emphasizes that possessing advanced technology is not the end goal. Success comes from the organization's capability to effectively "gather, manage and utilize" relevant information and, crucially, to "integrate" that information into the day-to-day decision-making processes of its managers. The focus is on application and integration, not just acquisition.

May/June 2021

90. Match the MKIS subsystem in List-I with its corresponding function/data type in List-II.
List-I
P. Internal Records System
Q. Marketing Intelligence System
R. Marketing Research System
S. Marketing Management and Science System
List-II
1. Employs techniques like consumer interviews for specific problems.
2. Uses statistical models to evaluate new products.
3. Tracks daily sales figures and inventory levels.
4. Monitors newspapers and trade journals for market trends.
(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

Ans :

(A) P-3, Q-4, R-1, S-2
The correct matching is: P (Internal Records) corresponds to tracking internal data like sales and inventory (3). Q (Marketing Intelligence) corresponds to monitoring external sources like journals for trends (4). R (Marketing Research) corresponds to using specific techniques like interviews for focused studies (1). S (Marketing Management and Science) corresponds to using models for complex analysis (2).

Oct/Nov 2012

91. The marketing director of a bank is concerned about a competitor's newly launched, popular mobile banking app. She tasks a team with analyzing news articles about the app and conducting a survey of the bank's own customers to gauge their interest in similar features. Which two MKIS subsystems are primarily being activated?
(A) Internal Records and Marketing Research
(B) Internal Records and Marketing Intelligence
(C) Marketing Management and Science and Internal Records
(D) Marketing Intelligence and Marketing Research

Ans :

(D) Marketing Intelligence and Marketing Research
Analyzing news articles about a competitor's product falls under the Marketing Intelligence System, which scans the external environment. Conducting a specific survey of customers to understand their preferences for new features is a classic function of the Marketing Research System, which addresses a specific informational need through a targeted study.

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May/June 2009

92. Which of the following statements regarding MKIS are correct?

I. The first descriptive model of MKIS is attributed to Philip Kotler.
II. In the McLeod and Rogers model, the output subsystems gather environmental data.
III. Internal accounting is regarded as the most important source of MKIS information.
IV. The use of decision models for computing economic order quantities has increased.
V. The major users of MKIS are typically the middle-level managers.

(A) I, III, and V only
(B) II, IV, and V only
(C) I, II, and III only
(D) III, IV, and V only

Ans :

(A) I, III, and V only
Statement I is correct. Statement III is correct. Statement V is correct. Statement II is incorrect; the input subsystems gather data, while output subsystems produce information. Statement IV is incorrect; the use of models for such well-structured tasks has significantly decreased. Therefore, only statements I, III, and V are correct.

Oct/Nov 2025

93. Arrange the principal functions of an MKIS in their correct logical sequence, from start to finish.

1. Analysing the data
2. Dissemination of information
3. Collecting and assembling data
4. Storage of data
5. Processing of data

(A) 3, 1, 5, 4, 2
(B) 1, 3, 5, 2, 4
(C) 3, 5, 1, 4, 2
(D) 3, 5, 4, 1, 2

Ans :

(C) 3, 5, 1, 4, 2
The logical sequence of information handling is as follows: first, data must be collected and assembled (3). Then, this raw data is processed into a usable format (5). Next, the processed data is analyzed to derive insights (1). The resulting information is then stored for preservation and future use (4). Finally, it is disseminated to decision-makers (2).

NODIA

May/June 2017

94. The chapter notes that "many marketing managers are not satisfied with their MKISs" and also that managers tend to focus "too much on planning and too little on implementation and controls."
Synthesizing these points, what is a plausible reason for manager dissatisfaction?

(A) The system provides too much information on implementation and not enough for planning.
(B) The system is excellent for control functions but lacks the data needed for effective planning.
(C) The system is too technically difficult to use for any practical management function.
(D) The system supports planning well but fails to provide timely feedback for control and adjustments.

Ans :

(D) The system supports planning well but fails to provide timely feedback for control and adjustments.
The dissatisfaction can be linked to the imbalance in support. If managers use the system heavily for planning but the system then provides inadequate support for implementation and control, they will be frustrated. The lack of timely feedback for monitoring progress and making mid-course corrections would be a major source of dissatisfaction for action-oriented managers.

Oct/Nov 2006

95. Consider the following statements:
Assertion (A): There has been a significant decrease in the use of decision models for well-structured tasks like determining reorder points.
Reason (R): Managers have found that such routine, well-structured tasks are more efficiently handled through automated processes within larger systems rather than standalone models.

(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
(C) (A) is true, but (R) is false.
(D) (A) is false, but (R) is true.

Ans :

(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).

Assertion (A) is a factual statement directly from the text. Reason (R), while not explicitly stated in one sentence, provides the logical explanation for this trend. As technology evolves, such routine calculations become embedded and automated in transactional or ERP systems, reducing the need for managers to actively use a separate decision model for them.

May/June 2020

96. Identify the correctly matched pair of an MKIS component and its description.
(A) Internal Records System - Provides information on changing consumption patterns in the market.
(B) Marketing Research System - Concerns with obtaining information for specific marketing problems.
(C) Marketing Intelligence System - Manages internal data on a company's sales turnover and costs.
(D) Marketing Management and Science System - Collects published information from newspapers and magazines.

Ans :

(B) Marketing Research System - Concerns with obtaining information for specific marketing problems.
This option correctly pairs the component with its function. The Marketing Research System is specifically designed to be project-based, gathering data to solve particular, well-defined marketing problems. The other options are incorrectly matched: (A) describes intelligence, (B) describes internal records, and (D) describes an activity of the intelligence system.

Oct/Nov 2015

97. A bank's marketing team is preparing to launch a new investment product. They pull data on existing customers' investment habits from their own database, subscribe to an external report on economic forecasts, and commission a focus group to discuss the new product concept. According to the McLeod and Rogers model, the activities of this team fall under which general subsystem?
(A) Output Subsystem
(B) Input Subsystem
(C) User/System Interface
(D) Management Activities Subsystem

Ans :

(B) Input Subsystem
The team's activities involve gathering data from all three sources that constitute the Input Subsystem in the McLeod and Rogers model. They are using the Internal Records System (customer database), Marketing Intelligence (economic forecasts report), and Marketing Research (focus group). All these are data-gathering activities that feed information into the central system.

May/June 2011

98. "Apparently, expert systems and artificial intelligence languages are not meeting their assured demand."
This finding from the study is an observation about which specific aspect of MKIS analysis?
(A) Software Usage
(B) Hardware Usage
(C) Information Content
(D) Communications of Information

Ans :

(A) Software Usage
The statement is a direct comment on the adoption and utility of specific categories of computer programs within the MKIS. Expert systems and AI languages are types of software. Therefore, this observation falls squarely under the analysis of Software Usage, where the study compared the use of different software categories like spreadsheets, DBMS, and AI.

Oct/Nov 2022

99. Which statement most accurately distinguishes between the Marketing Intelligence System and the Marketing Research System?
(A) The Intelligence system is for internal data, while the Research system is for external data.
(B) The Intelligence system is always conducted by in-house staff, while the Research system is always outsourced.
(C) The Intelligence system involves continuous scanning, while the Research system is for project-based problems.
(D) The Intelligence system focuses only on the past, while the Research system focuses only on the future.

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for "regular, planned, purpose-oriented and systematic collection of data." While the Marketing Research subsystem handles specific projects, the MKIS as a whole is a continuous system, not one focused primarily on one-time collection efforts.

Oct/Nov 2019

85. To achieve a successful MKIS, what is necessary beyond simply implementing new information technologies?

(A) Increasing the sheer volume of data collected regardless of its relevance.
(B) Restricting access to the system to only top-level executives and strategists.
(C) Focusing more on the information needs of marketing managers.
(D) Reducing the overall use of computer-assisted decision models for analysis.

Ans :

(C) Focusing more on the information needs of marketing managers.
The text concludes that technology alone is not a silver bullet. A successful MKIS requires a strategic focus "more on the information needs of marketing managers" and balancing support for all management functions. This user-centric approach ensures that the technology actually delivers the relevant intelligence that managers need to make better decisions.

May/June 2005

86. What combination of actions is suggested to create a competitive advantage and increase manager satisfaction with the MKIS?

(A) Focusing only on internal sales data and ignoring external market trends.
(B) Integrating business plans with CIS plans to exploit available information resources.
(C) Implementing new technologies without changing underlying management processes.
(D) Increasing the number and frequency of routine, standardized reports from the system.

Ans :

(B) Integrating business plans with CIS plans to exploit available information resources.
The text recommends a strategic alignment. It suggests integrating business plans with Computer Information System (CIS) plans "in order to exploit the available information resources." This holistic approach ensures that IT investments and information strategies directly support business goals, which in turn creates a competitive advantage and improves manager satisfaction.

Oct/Nov 2024

87. The summary explains that the need for MKIS has become more acute due to several factors. Which of the following is NOT listed as one of these contributing factors?

(A) The increasing complexity and fast-paced nature of modern marketing activity.
(B) The need to bridge the growing communication gap between the producer and the end consumer.
(C) The importance of making prompt, well-informed decisions to ensure effective marketing actions.
(D) A significant decrease in the amount of data available to modern marketers.

Ans :

(D) A significant decrease in the amount of data available to modern marketers.
The text explicitly states that the modern problem is an "information explosion" or an oversupply of data, not a decrease. The acute need for MKIS arises from the need to manage this complexity, bridge communication gaps with consumers and intermediaries, and enable the prompt decisions required in a fast-paced market environment.

May/June 2013

88. A good MIS is described in the summary as a unified and centralized system. Which of the following is mentioned as one of its key characteristics?

(A) It is selective in information processing to avoid data overload.
(B) It provides generic, one-size-fits-all information for all users.
(C) It operates on a batch processing basis only, with weekly updates.
(D) It is designed to be difficult to integrate with other corporate systems.

Ans :

(A) It is selective in information processing to avoid data overload.
The summary highlights several characteristics of a good MIS. Among them is that it should be "selective in information processing." This means

NODIA

CHAPTER 23

Importance of Wealth Management

Oct/Nov 2012

1. According to the introductory definition, what is the primary purpose of wealth management?

(A) To provide a single, standardized investment product to all clients for a fixed annual fee.

(B) To combine various financial services to address the specific needs of affluent clients.

(C) To focus exclusively on accounting and tax preparation services for corporate entities.

(D) To offer high-risk, speculative investment opportunities to the general public.

Ans :

(B) To combine various financial services to address the specific needs of affluent clients.

Wealth management is defined as an investment advisory service that integrates multiple financial services to cater to the needs of affluent clients. It uses a consultative process to understand the client's situation and then develops a personalized strategy using a wide array of financial products and services, moving beyond a single-product approach.

May/June 2021

2. How does a wealth management advisor typically begin the engagement with a new client?

(A) By using a consultative process to understand the client's specific situation and wants.

(B) By immediately investing the client's funds into the firm's standard recommended stock portfolio.

(C) By providing a standardized financial plan that is used for all clients with similar asset levels.

(D) By focusing solely on selling the most profitable insurance policies available through the advisory firm.

Ans :

(A) By using a consultative process to understand the client's specific situation and wants.

The process begins with a consultative approach where the advisor gathers detailed information about the client's specific needs, financial situation, and personal goals. This crucial first step allows the advisor to tailor a personalized strategy that truly aligns with the client's objectives, rather than offering a generic or product-driven solution from the outset.

Oct/Nov 2005

3. Which of the following best describes the scope of services included in wealth management for a set fee?

(A) Exclusively portfolio management services, without any additional financial planning.

(B) Only retirement and tax planning services, excluding investment or estate advice.

(C) Investment planning, accounting, tax planning, and estate planning.

(D) Primarily accounting and auditing services targeted specifically for corporate entities.

Ans :

(C) Investment planning, accounting, tax planning, and estate planning.

Wealth management is a comprehensive professional service that typically bundles a wide range of financial advisory functions for a single set fee. This includes investment planning, accounting, tax planning, estate or retirement planning, and portfolio management. The service is provided to business owners, corporates, or individuals to address their complete financial landscape holistically.

May/June 2018

4. What is the term for wealth management services provided at an international level to businesses or organizations?

(A) Corporate Wealth Management

(B) Multinational Financial Planning

(C) International Asset Advisory

(D) Global Wealth Management

Ans :

(D) Global Wealth Management

When the professional services encompassing investment, tax, estate, and retirement planning

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are delivered on an international scale to businesses or organizations, they are termed global wealth management. This signifies the cross-border complexity and expanded scope of managing wealth for entities operating in multiple jurisdictions, requiring expertise in international finance and regulations.

Oct/Nov 2016

5. On what basis are fees for comprehensive wealth management services typically calculated?

(A) A fixed annual retainer fee, regardless of the client's total asset size.

(B) A percentage of the new profits that are generated each calendar year.

(C) A client's total assets under management (AUM).

(D) An hourly billing rate for all consultations and administrative work.

Ans :

(C) A client's total assets under management (AUM).

While fee structures can vary, a typical model for comprehensive wealth management services involves charging fees based on the client's assets under management (AUM). This approach aligns the advisor's compensation with the performance and growth of the client's portfolio, creating a partnership where the advisor is incentivized to increase the client's wealth over time.

May/June 2007

6. Which statement accurately summarizes the nature of wealth management services?

(A) A service designed for individuals with simple financial needs, focusing only on basic savings.

(B) An advisory service that integrates various financial services for affluent clients.

(C) A high-level service focused exclusively on aggressive, short-term capital gains for speculative investors.

(D) A low-cost, product-centric service that avoids holistic strategies and comprehensive financial management.

Ans :

(B) An advisory service that integrates various financial services for affluent clients.

Wealth management is best summarized as an advanced investment advisory service designed for affluent clients with diverse and complex financial needs. It integrates various other financial services, and the advisor acts as a high-level professional who manages the client's wealth holistically, often for a single, comprehensive fee, addressing a broad array of requirements.

Oct/Nov 2024

7. How does the "broad view" of wealth management differ from simple investment advice?

(A) It focuses solely on conservative, low-risk options like basic savings accounts and fixed deposits.

(B) It is strictly limited to providing advice on a single, specific product from one professional source.

(C) It intentionally avoids coordination with other professionals to maintain absolute compartmentalization of advice.

(D) It provides a holistic strategy covering all parts of a person's financial life.

Ans :

(D) It provides a holistic strategy covering all parts of a person's financial life.

The broad view of wealth management extends far beyond just providing investment advice. It is a holistic approach that encompasses all aspects of a person's and their family's financial life. Instead of integrating disparate pieces of advice, it aims to create a single, coordinated strategy covering everything from investments and savings to estate and succession planning.

May/June 2013

8. In complex situations, what role might a wealth management advisor play concerning other professionals?

(A) The advisor coordinates input from various outside experts and the client's existing professionals.

(B) The advisor is expected to replace all other professionals, such as attorneys and accountants, entirely.

(C) The advisor must work in complete isolation, ignoring any input from the client's other service professionals.

(D) The advisor provides legal and accounting services directly to the client, even without proper certification.

Ans :

NODIA

(A) The advisor coordinates input from various outside experts and the client's existing professionals.

A key function of a wealth management advisor is to act as a central coordinator. They often have to orchestrate input from outside financial experts as well as the client's existing service professionals, such as an attorney or accountant. This collaboration is essential to craft an optimal and comprehensive strategy that benefits the client across all financial domains.

Oct/Nov 2020

9. Besides core financial services, what additional advice might some wealth managers provide?

(A) Medical and health-related advice
(B) Career counseling and job placement services
(C) Advice on philanthropic activities
(D) Real estate construction and contracting services

Ans :

(C) Advice on philanthropic activities

The scope of wealth management can extend beyond traditional financial planning and investment. Some wealth managers also provide specialized advice on philanthropic activities, helping clients structure their charitable giving in a tax-efficient and impactful manner. This service aligns with the holistic approach of managing all aspects of a client's wealth, including their legacy and social contributions.

May/June 2025

10. Which of the following is identified as an essential part of wealth management for ensuring and preserving wealth over a longer term?

(A) Estate Planning
(B) Short-term speculative trading in volatile assets
(C) Frequent changes in the core investment strategy
(D) Focusing only on high-risk, unproven assets

Ans :

(A) Estate Planning

Estate planning is highlighted as a very essential component of wealth management. Its primary purpose is to ensure that a client's wealth is preserved and transferred effectively over the long term according to their wishes. This involves creating structures like wills and trusts to manage assets, minimize taxes, and provide for future generations smoothly.

Oct/Nov 2011

11. What is the primary goal of the "Understanding Investment needs" aspect of wealth management?

(A) To select the most aggressive investment products available regardless of client risk tolerance.
(B) To quickly invest funds without a detailed analysis of the client's long-term financial goals.
(C) To focus exclusively on proprietary products and services offered by the advisor's own firm.
(D) To clarify investment needs and set the right direction for the financial plan.

Ans :

(D) To clarify investment needs and set the right direction for the financial plan.

The aspect of "Understanding Investment needs" is of the utmost priority in wealth management. Its goal is to gain absolute clarity on the client's specific requirements and objectives. This understanding forms the foundation of the entire financial strategy, setting the correct direction and ensuring that all subsequent decisions are aligned with achieving the client's goals.

May/June 2010

12. Assertion (A): A wealth manager's role is to make the entire wealth management process simple and easy for the client to understand.

Reason (R): Over a person's life, wealth plays different roles, making it extremely important to plan in advance for the future.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

The assertion that a wealth manager simplifies the process is true, as is the reason that wealth's role changes over a lifetime, necessitating advance planning. The complexity arising from the changing roles of wealth throughout life is precisely why a wealth manager is needed

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to simplify the process and create a clear, understandable plan for the client.

Oct/Nov 2015

13. A high-net-worth client has ₹200 crores in investable assets, a trust for their grandchildren, and recently experienced the passing of their partner. Beyond discretionary investment, what additional services would a wealth management firm most likely provide in this situation?

(A) Only basic portfolio rebalancing services and the generation of monthly performance reports.

(B) Only basic retail banking services, such as setting up a checking and savings account.

(C) Will and trust services to address tax minimization and complex estate planning needs.

(D) Advice strictly limited to investing the client's entire portfolio in government securities.

Ans :

(C) Will and trust services to address tax minimization and complex estate planning needs.

Given the client's complex situation, which includes significant assets, a trust, and a recent change in family structure, a wealth management firm would provide comprehensive services. This goes beyond just investing the funds. It would critically include will and trust services to address estate planning needs and ensure tax minimization, reflecting a holistic wealth management approach.

May/June 2022

14. Which statement correctly describes the typical structure of a wealth management office?

(A) It consists of a single generalist professional attempting to handle all aspects of finance alone.

(B) It primarily employs junior-level analysts who have very limited experience in client-facing roles.

(C) It focuses only on one specialized service area, such as insurance products or specific credit solutions.

(D) It includes a multidisciplinary team of experts providing advice across various professional fields.

Ans :

(D) It includes a multidisciplinary team of experts providing advice across various professional fields.

Generally, wealth management offices are structured to provide comprehensive advice by having a team of experts and professionals. This team-based approach ensures that clients receive specialized advice across various fields like investment strategy, estate planning, tax law, and trusts. This structure is necessary to address the multifaceted needs of high-net-worth clients effectively and holistically.

Oct/Nov 2019

15. How might the expertise of a wealth management advisor at a large bank differ from one at a direct investment firm?

(A) The bank's advisor may focus more on trusts, credit, and estate planning.

(B) The advisor at the bank would have more extensive knowledge of overall investment strategy.

(C) The investment firm's advisor would focus more heavily on credit options and trust management.

(D) Both types of advisors would have identical expertise and primary areas of professional focus.

Ans :

(A) The bank's advisor may focus more on trusts, credit, and estate planning.

The expertise within wealth management can vary by firm. Advisors in the direct employ of an investment firm may have deeper knowledge in investment strategy. In contrast, those working for a large bank might focus more on areas like the management of trusts, available credit options, comprehensive estate planning, or insurance, reflecting the broader service suite of a bank.

May/June 2006

16. Why do Wealth Management Professionals generally have a better knowledge of investment options than an average individual?

(A) They have exclusive access to secret, non-public market information that guarantees profits.

(B) Their profession requires them to deal daily with diverse investment options, strategies, and portfolios.

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(C) They are legally required by regulators to invest their own personal money in every recommended option.
(D) They focus their entire career on only a single type of investment, such as one company's stock.

Ans :

(B) Their profession requires them to deal daily with diverse investment options, strategies, and portfolios.
Wealth Management Professionals possess superior knowledge because their profession requires them to deal with a wide array of investment options, market strategies, and portfolio management techniques on a daily basis. This constant engagement and practical experience give them a depth of understanding that an individual investor, who is not similarly immersed, would not typically have.

Oct/Nov 2023

17. Which of the following represents the correct sequence of the wealth management process?
(A) Design solution → Implement plan → Assess situation → Identify goals → Monitor results
(B) Assess situation → Identify goals → Design solution → Implement plan → Monitor results
(C) Identify goals → Implement plan → Monitor results → Assess situation → Design solution
(D) Implement plan → Monitor results → Assess situation → Design solution → Identify goals

Ans :

(B) Assess situation → Identify goals → Design solution → Implement plan → Monitor results
The wealth management process follows a logical five-step sequence. It begins with assessing the client's current financial situation. This is followed by identifying their financial goals. Based on this, a customized solution is designed. The financial strategies are then implemented, and finally, the results are continuously monitored and the plans are reviewed and adjusted as needed.

May/June 2014

18. What is the primary objective of the "Designing a customized solution" step in the wealth management process?
(A) To develop a tailored strategy to achieve the client's identified goals.
(B) To select a pre-packaged investment product that is easy for the advisor to implement.
(C) To create a generic financial plan that is broadly applicable to any type of client.
(D) To focus solely on minimizing the advisor's workload and total administrative effort.

Ans :

(A) To develop a tailored strategy to achieve the client's identified goals.
After assessing the client's situation and identifying their financial goals, the next logical step is to design a customized solution. This stage involves creating a specific, tailored strategy and plan of action aimed directly at achieving the previously defined goals. It is the bridge between understanding the client's needs and putting a plan into action to meet them.

Oct/Nov 2009

19. What is the manager's responsibility after the original wealth management plan is developed and implemented?
(A) To cease all contact with the client, as the initial work is considered fully complete and final.
(B) To contact the client only in emergencies, such as when the portfolio's value decreases significantly.
(C) To meet with the client regularly for reviewing goals and rebalancing the investment portfolio.
(D) To delegate all future portfolio reviews to an automated system without any personal client interaction.

Ans :

(C) To meet with the client regularly for reviewing goals and rebalancing the investment portfolio.
Wealth management is an ongoing process, not a one-time event. After the initial plan is implemented, the manager's role is to engage in regular meetings with the client. These sessions are crucial for updating goals, reviewing performance, rebalancing the portfolio, and investigating if any additional services are needed to serve the client throughout their life.

May/June 2019

20. In the context of wealth management services, what is the main focus of Asset Allocation Management?
(A) Choosing the best short-term tactics for precisely timing the market's entry and exit

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points.
(B) Providing a single, inflexible portfolio model that ignores diverse client needs and goals.
(C) Focusing exclusively on high-growth, high-risk technology stocks to achieve aggressive returns.
(D) Managing investment portfolios with a focus on income generation and risk balancing.

Ans :

(D) Managing investment portfolios with a focus on income generation and risk balancing.
Asset Allocation Management is an investment advisory service fully dedicated to managing investment portfolios. Its specific focus is on initiating income generation for the client. A key strategy within this approach is to balance risk and reward by strategically moving investments among different investment categories based on market conditions and the client's risk tolerance.

Oct/Nov 2008

21. Which type of wealth management helps in selecting the appropriate ways to achieve financial strategies by choosing the best alternatives and tactics?
(A) Asset Allocation Management
(B) Diversified Management
(C) Tactical Management
(D) Strategic Management

Ans :

(C) Tactical Management
Tactical Management is the component of wealth management that focuses on the practical implementation of financial strategies. It involves selecting the most appropriate methods and tactics to achieve the overarching goals. This includes making shorter-term adjustments and choosing the best alternatives within the broader asset allocation framework to capitalize on market opportunities or mitigate risks.

May/June 2024

22. What is the primary role of a Diversified Management team in wealth management?
(A) To concentrate all investments in a single, high-conviction asset class for maximum returns.
(B) To provide a flexible model that helps in meeting the specific needs of the client.
(C) To focus only on generating a steady stream of income through government bonds.
(D) To implement rigid, unchangeable investment strategies that are never updated.

Ans :

(B) To provide a flexible model that helps in meeting the specific needs of the client.
The role of a Diversified Management team is to assist clients by providing a flexible investment model. This flexibility is crucial for adapting to the client's changing needs and evolving market conditions. By diversifying across various assets and strategies, the team can create a resilient portfolio that is better equipped to meet the client's unique requirements.

Oct/Nov 2017

23. Which of the following is NOT one of the three types of management wealth management deals in?
(A) Asset Allocation Management
(B) Tactical Management
(C) Diversified Management
(D) Concentrated Management

Ans :

(D) Concentrated Management
Wealth management provides services through three main types of management: Asset Allocation Management, which focuses on balancing risk and income; Tactical Management, which involves choosing the best methods to achieve strategies; and Diversified Management, which provides a flexible model for client needs. Concentrated Management is not listed as one of these core types.

May/June 2008

24. Which of the following is NOT listed as a common product and service offered by wealth management professionals?
(A) Personal Loans and Credit Cards
(B) Alternative Asset and Bonds
(C) Insurance and Mutual Funds
(D) Retirement Planning and Will Writing

Ans :

(A) Personal Loans and Credit Cards
The text lists several important products and services offered by wealth managers, including Alternative Assets, Bonds, Insurance, Mutual Funds, Portfolio Management Services, Real Estate Services, Retirement Planning, and Will Writing. While banking services might be related,

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personal loans and credit cards are typical retail banking products, not specialized wealth management offerings.

Oct/Nov 2013

25. What defines an "alternative asset" in the context of a wealth management portfolio?

(A) Any traditional stock or bond that is commonly found in a standard investment portfolio.
(B) A government-issued security that offers a guaranteed fixed interest rate until its maturity.
(C) A non-traditional asset with economic value not found in a standard portfolio.
(D) Any financial asset that is traded with high liquidity on a major public stock exchange.

Ans :

(C) A non-traditional asset with economic value not found in a standard portfolio.
An alternative asset is characterized as any non-traditional asset that possesses potential economic value but is not commonly included in a standard investment portfolio of stocks and bonds. Due to their unconventional nature, valuing these assets can often be difficult for most people, requiring specialized knowledge and expertise for proper assessment and management.

May/June 2015

26. Based on the provided list of examples for alternative assets, which of the following would be considered an alternative asset?

(A) Art and Antiques
(B) Corporate Fixed Deposits
(C) Government Bonds
(D) Mutual Fund units

Ans :

(A) Art and Antiques
The text provides a specific list of examples for alternative assets. This list includes items such as Art and Antiques, Precious Metals, Fine Wines, Rare Stamps, Coins, Sports Cards, and Other Collectibles. Corporate fixed deposits, government bonds, and mutual funds are considered more traditional investment products and are not on this list.

Oct/Nov 2006

27. Why can the valuation of alternative assets be difficult for most people?

(A) Because their value is formally fixed by a government agency on an annual basis.
(B) Because they are traded with high frequency and transparency on public exchanges.
(C) Because their value is solely determined by the original cost of their production.
(D) Due to their unconventional nature and the illiquidity of their trading markets.

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Ans :

(D) Due to their unconventional nature and the illiquidity of their trading markets.
The valuation of alternative assets like art, antiques, or fine wines is challenging due to their unconventional nature. Unlike stocks or bonds with readily available market prices, these assets often trade in illiquid, opaque markets. Their value depends on subjective factors like rarity, condition, and provenance, making objective assessment difficult for non-specialists.

May/June 2020

28. How is a bond defined in financial terms?

(A) An equity instrument that represents a direct ownership stake in a publicly traded company.
(B) A fixed-income instrument representing a loan made by an investor to a borrower.
(C) A complex derivative product whose value is based on an underlying stock market index.
(D) A short-term speculative investment designed for rapid profits from day-trading.

Ans :

(B) A fixed-income instrument representing a loan made by an investor to a borrower.
A bond is a type of fixed-income instrument that represents a loan from an investor to a borrower. The issuer of the bond promises to pay the investor a specific rate of interest over the life of the bond and to repay the principal amount, or face value, at the time of maturity.

Oct/Nov 2021

29. Which entities typically issue bonds?

(A) Only private individuals and very small, local businesses.
(B) Exclusively technology start-up companies seeking venture capital.
(C) Governments, corporations, municipalities, and other sovereign bodies.
(D) Only international financial institutions like the IMF and World Bank.

Ans :

(C) Governments, corporations, municipalities, and other sovereign bodies.
Bonds are issued by a wide range of entities that need to raise capital. This includes national governments (sovereign bodies), state and local governments (municipalities), and public and private corporations. This diversity of issuers allows investors to choose bonds with different levels of risk, return, and purpose, from funding infrastructure to corporate expansion.

May/June 2012

30. What is a key characteristic of the bond market compared to the equity market?
(A) It is significantly more volatile and unpredictable, making it suitable for risk-seeking investors.
(B) It is exclusively designed for very short-term investments, with all maturities under one year.
(C) It only allows the trading of debt securities issued by national governments and their agencies.
(D) It is less volatile than equity markets, suiting investors with lower risk tolerance.

Ans :

(D) It is less volatile than equity markets, suiting investors with lower risk tolerance.
A defining feature of the bond market is its relatively lower volatility compared to the equity market. This makes it a more suitable investment avenue for investors who have a lower tolerance for risk. Bonds offer more predictable returns, making them an efficient and safer way to diversify a portfolio and preserve capital.

Oct/Nov 2010

31. What is the main difference between the primary and secondary bond markets?
(A) The primary market is for new issues from the issuer; the secondary market is for trading existing bonds.
(B) The primary market is for trading old bonds, while the secondary market is for newly issued ones.
(C) The primary market is for corporate bonds, while the secondary market is for government bonds.
(D) The primary market is for retail investors, while the secondary market is for institutional investors.

Ans :

(A) The primary market is for new issues from the issuer; the secondary market is for trading existing bonds.
The distinction between bond markets is based on the transaction type. The primary market is where the original bond issuer sells new debt securities directly to investors to raise capital. The secondary market is where investors trade these previously issued bonds among themselves, providing liquidity without the direct involvement of the original issuer.

May/June 2005

32. What is the major role of a bond market in an economy?
(A) To facilitate short-term consumer borrowing for personal expenses like vacations and electronics.
(B) To help governments and corporations access long-term capital for projects and operations.
(C) To provide a regulated platform exclusively for the trading of foreign currency exchange.
(D) To exclusively manage and execute all transactions occurring on the nation's stock market.

Ans :

(B) To help governments and corporations access long-term capital for projects and operations.
The primary economic function of a bond market is to serve as a crucial mechanism for long-term capital formation. It enables governments to finance public projects and deficits, and it allows large private entities (corporations) to raise funds for expansion, investment, and operations. This access to long-term capital is vital for economic growth and development.

Oct/Nov 2022

33. What right or obligation does a convertible bond provide to the purchaser?
(A) The guaranteed right to receive a higher interest rate than all other bondholders.
(B) The right or obligation to convert the bond into shares of the issuer.
(C) The strict obligation to hold the bond until its original maturity date without selling.
(D) The exclusive right to change the bond's stated interest rate at any time before maturity.

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Ans :

(B) The right or obligation to convert the bond into shares of the issuer.

A convertible bond is a hybrid security that gives the bondholder a right or, in some cases, an obligation to convert the bond into a predetermined number of equity shares of the issuing company. This conversion can typically only happen at specified times during the bond's tenure, offering a blend of bond-like safety and stock-like upside potential.

May/June 2016

34. What distinguishes a regular convertible bond from a mandatory convertible bond?

(A) Regular bonds offer a right to convert, while mandatory bonds obligate conversion.

(B) Regular bonds have no fixed maturity date, while mandatory bonds must mature within one year.

(C) Regular bonds are issued by governments, while mandatory bonds are issued only by corporations.

(D) Regular bonds pay no interest coupon, while mandatory bonds are required to pay a high one.

Ans :

(A) Regular bonds offer a right to convert, while mandatory bonds obligate conversion.

The key difference lies in the nature of the conversion feature. A regular convertible bond provides the investor with an option—the right, but not the obligation—to convert the bond into equity. In contrast, a mandatory convertible bond forces the investor to convert the bond into equity shares upon maturity, removing the element of choice.

Oct/Nov 2007

35. In a reverse convertible bond, who holds the right to convert the bond into equity shares?

(A) The investor who purchased the bond

(B) A third-party regulatory body like SEBI

(C) The issuing company that sold the bond

(D) The independent bond trustee

Ans :

(C) The issuing company that sold the bond

Unlike regular convertible bonds where the investor holds the conversion option, a reverse convertible bond grants the right of conversion to the issuing company. This means the company can choose to convert the bonds into equity shares at a predetermined price upon maturity, a feature that shifts control of the conversion decision from the investor to the issuer.

May/June 2023

36. Why do companies typically offer a higher rate of interest on mandatory convertible bonds?

(A) To compensate investors for the lower credit rating typically assigned to the issuing company.

(B) Because these bonds usually have a much longer maturity period than regular types of bonds.

(C) To comply with specific government regulations that mandate higher rates on these instruments.

(D) Because investors are forced to convert their bonds into equity, losing the option of principal repayment.

Ans :

(D) Because investors are forced to convert their bonds into equity, losing the option of principal repayment.

With mandatory convertible bonds, investors lose the option to receive their principal back at maturity and are obligated to accept equity shares instead. To compensate for this loss of choice and the inherent risk of becoming an equity holder, companies usually offer a higher rate of interest on these bonds compared to regular convertible or non-convertible bonds.

Oct/Nov 2018

37. Match the type of convertible bond (List-I) with its correct description (List-II).

List-I

P. Regular Convertible Bond

Q. Mandatory Convertible Bond

R. Reverse Convertible Bond

List-II

1. The issuing company holds the right to convert the bond into equity shares.
2. The investor is obligated to convert the bond into equity shares upon maturity.
3. The investor has the right, but not the obligation, to convert the bond into equity.

(A) P-3, Q-2, R-1

(B) P-1, Q-2, R-3

(C) P-2, Q-3, R-1

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bonds is secured by the full faith and credit of the issuing municipality, with payments made from its general revenues, which typically include tax collections.

May/June 2015

56. How do Revenue Bonds differ from General Obligation Bonds in terms of repayment?
(A) Revenue Bonds are repaid from revenue explicitly generated by the specific projects they fund.
(B) Revenue Bonds are repaid from general tax collections, while GO Bonds are repaid from project income.
(C) Revenue Bonds have no formal repayment obligation and depend on the issuer's goodwill.
(D) Revenue Bonds are ultimately repaid by the central government, not the issuing municipality.

Ans :

(A) Revenue Bonds are repaid from revenue explicitly generated by the specific projects they fund.
Unlike GO bonds, Revenue Bonds are issued to fund specific projects that are expected to generate their own revenue stream, such as a toll road or a public utility. The repayment of interest and principal to bondholders is processed exclusively from this dedicated revenue generated by the declared project, rather than from the municipality's general funds.

Oct/Nov 2006

57. Compared to General Obligation bonds, what are two characteristics of Revenue Bonds?
(A) Shorter maturity periods that are typically under five years and lower overall returns.
(B) Shorter maturity periods combined with significantly higher returns to compensate for risk.
(C) Extended maturity periods of up to 30 years and higher returns.
(D) Extended maturity periods of up to 30 years but with much lower overall returns.

Ans :

(C) Extended maturity periods of up to 30 years and higher returns.
Revenue Bonds are generally considered riskier than GO bonds because their repayment depends on the success of a single project. To compensate for this higher risk, they typically offer higher returns to investors. Additionally, they often have extended maturity periods, which can be as long as 30 years, to match the long-term nature of the infrastructure projects they finance.

May/June 2020

58. What is the typical purpose for a company issuing retail bonds?
(A) To expand their business, pay off existing debt, or fund a specific project.
(B) To offer ownership stakes and voting rights exclusively to its current employees.
(C) To comply with a mandatory regulatory requirement for maintaining a public listing.
(D) To provide short-term personal loans directly to their most loyal customers.

Ans :

(A) To expand their business, pay off existing debt, or fund a specific project.
A retail bond offering is a method for a company to raise additional capital directly from investors. The funds raised are typically used for strategic business purposes, such as financing expansion, paying off existing debt, or funding a specific new project. This provides an alternative to traditional bank loans or issuing equity for capital-raising needs.

Oct/Nov 2021

59. In the context of insurance, who is the "insurer"?
(A) The individual person or legal entity that is buying the insurance policy.
(B) The government body that regulates the entire domestic insurance industry.
(C) The nominee designated to receive the benefit in the event of a successful claim.
(D) The company selling the insurance, also known as the insurance carrier.

Ans :

(D) The company selling the insurance, also known as the insurance carrier.
The terminology in an insurance contract is specific. The "insurer," also referred to as the insurance carrier, is the company that sells the insurance policy. This entity assumes the financial risk and agrees to provide financial protection to the policyholder against specified losses in exchange for the payment of premiums.

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(A) Their interest rates are periodically reset, allowing adjustment to market changes.
(B) They have a very short lock-in period, typically lasting for less than one calendar year.
(C) Their principal value automatically increases each year with the annual rate of inflation.
(D) They are guaranteed by a private corporation against any potential loss of principal value.

Ans :

(A) Their interest rates are periodically reset, allowing adjustment to market changes.
Floating rate bonds (FRBs) are effective in mitigating interest rate risk because their interest payments are not fixed. The rates are reset at predetermined intervals based on a benchmark rate. When market rates rise, the bond's interest payment also increases, protecting the investor's returns from being eroded by the changing rate environment, unlike with fixed-rate bonds.

Oct/Nov 2016

43. An investor buys a "6.5% GOI 2024" bond. What does the "6.5%" signify?
(A) The total return the investor can expect upon the bond's maturity in the year 2024.
(B) The minimum guaranteed capital appreciation of the bond's market price per year.
(C) The tax rate that will be applied to any interest earned from the bond investment.
(D) The annual rate of interest applicable on the face value of the bond.

Ans :

(D) The annual rate of interest applicable on the face value of the bond.
In the nomenclature of a bond like "6.5% GOI 2024", the percentage figure represents the coupon rate. This means the bond pays an annual interest of 6.5% on its face value. The "GOI" identifies the issuer as the Government of India, and "2024" indicates the year of maturity when the principal is repaid.

May/June 2013

44. What is the best time to buy floating rate bonds, according to the text?
(A) When interest rates are currently high and are widely expected to fall soon.
(B) When interest rates are low and are expected to increase in the near future.
(C) When the domestic stock market is performing exceptionally well and reaching new highs.
(D) When the national rate of inflation is at an all-time low and is expected to stay there.

Ans :

(B) When interest rates are low and are expected to increase in the near future.
The text advises that the best time to purchase floating rate bonds is when interest rates are currently low but are anticipated to rise. This is because the bond's interest payments will adjust upwards as market rates increase, leading to higher returns for the investor. Buying when rates are high and expected to fall would be disadvantageous.

Oct/Nov 2024

45. What is a key feature of the interest generated via Sovereign Gold Bonds (SGBs)?
(A) It is taxed at a flat rate of 20% for all investors.
(B) It is fully taxable as per the investor's individual income slab.
(C) It is tax-free.
(D) It is only taxed if the investor is a Non-Resident Indian (NRI).

Ans :

(C) It is tax-free.
A significant advantage of investing in Sovereign Gold Bonds (SGBs) is the tax treatment of the interest earned. The text explicitly states that the interest generated via these bonds is tax-free. This feature enhances the overall return for the investor compared to other instruments where interest income is subject to taxation, making SGBs attractive.

May/June 2005

46. How is the nominal value of a Sovereign Gold Bond (SGB) ordinarily determined?
(A) It is fixed by the Reserve Bank of India at a single rate for the entire financial year.
(B) It is directly linked to the international market price of silver, rather than gold.
(C) It is determined by a competitive auction process open only to institutional investors.
(D) It is based on the average closing price of 99% purity gold for three prior days.

Ans :

NODIA

(D) It is based on the average closing price of 99% purity gold for three prior days.

The issuance price, or nominal value, of an SGB is not arbitrary. It is calculated based on the simple average of the closing price of gold with a purity level of 99 percent. This average is taken from the three business days preceding the bond's issuance date, ensuring the price is closely aligned with the prevailing market rate of physical gold.

Oct/Nov 2023

47. What is the minimum period after which liquidity of Sovereign Gold Bonds (SGBs) is possible?

(A) 5 years
(B) 1 year
(C) 3 years
(D) 8 years

Ans :

(A) 5 years

While SGBs are long-term instruments, they do offer an exit option before the full maturity period. The text specifies that liquidity for SGBs is possible after a period of 5 years from the date of issuance. However, full redemption is only possible on the date of interest disbursal after this lock-in period has been completed.

May/June 2014

48. Inflation-Indexed Bonds are typically issued for retail investors and are indexed in accordance with which metrics?

(A) The quarterly GDP growth rate and the annual national fiscal deficit percentage.
(B) The consumer price index (CPI) or wholesale price index (WPI).
(C) A major domestic stock market index, such as the Nifty 50 or the BSE Sensex.
(D) The foreign exchange rate of the domestic currency against the US dollar or Euro.

Ans :

(B) The consumer price index (CPI) or wholesale price index (WPI).

Inflation-Indexed Bonds are designed to protect an investor's capital and returns from the eroding effects of inflation. To achieve this, both the principal and the interest payments on these bonds are adjusted in accordance with a measure of inflation, which is ordinarily the Consumer Price Index (CPI) or the Wholesale Price Index (WPI).

Oct/Nov 2009

49. The 7.75% GOI Savings Bond, launched in 2018, can be held by which of the following entities?

(A) Non-Resident Indians (NRIs) and Persons of Indian Origin (PIOs).
(B) Individuals who are not NRIs, minors, or a Hindu Undivided Family (HUF).
(C) Private limited companies and public sector undertakings (PSUs).
(D) Foreign institutional investors and qualified foreign portfolio investors.

Ans :

(B) Individuals who are not NRIs, minors, or a Hindu Undivided Family (HUF).

The RBI has stipulated specific eligibility criteria for holding the 7.75% GOI Savings Bond. According to the text, these bonds can be possessed by individuals who are not Non-Resident Indians (NRIs), minors, or a Hindu Undivided Family (HUF). This indicates the bond is targeted at resident individual investors seeking a safe, fixed-income instrument.

May/June 2019

50. What is the tax treatment for interest earned from the 7.75% GOI Savings Bond?

(A) It is taxable as per the investor's slab under the Income Tax Act, 1961.
(B) It is completely tax-free for all categories of resident Indian investors, similar to SGBs.
(C) It is taxed at a special flat rate of 10% for all investors, regardless of their income level.
(D) Tax is only applicable if the annual interest income from the bond exceeds ₹1,00,000.

Ans :

(A) It is taxable as per the investor's slab under the Income Tax Act, 1961.

Unlike some other government securities like SGBs, the interest earned from the 7.75% GOI Savings Bond is not tax-exempt. The text clearly states that this interest is taxable according to the provisions of the Income Tax Act, 1961. The tax is levied based on the individual investor's applicable income tax slab.

Oct/Nov 2008

51. What is the minimum investment amount for the 7.75% GOI Savings Bond?

(A) ₹500 and in multiples of ₹500
(B) ₹5,000 and in multiples of ₹5,000
(C) ₹1,000 and in multiples of ₹1,000

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(D) ₹10,000 and in multiples of ₹10,000

Ans :

(C) ₹1,000 and in multiples of ₹1,000
The text specifies the issuance details for the 7.75% GOI Savings Bond. These bonds are issued for a minimum amount of ₹1,000. Subsequent investments must also be made in multiples of ₹1,000, establishing a clear and accessible entry point for retail investors looking to invest in this government security.

May/June 2024

52. In the context of "Bonds with Call or Put Option", what right does a put option grant to the investor?
(A) The right to convert the bond into a predetermined number of equity shares.
(B) The right to demand a higher interest payment if market rates increase.
(C) The right to extend the original maturity date of the bond by a few years.
(D) The right to sell the bond back to the issuer at a set price before maturity.

Ans :

(D) The right to sell the bond back to the issuer at a set price before maturity.
A bond with a put option provides a significant right to the investor. The put option grants the investor the right, but not the obligation, to sell the bond back to the issuer at a predetermined price before its official maturity date. This feature provides investors with an early exit opportunity, enhancing liquidity and risk management.

Oct/Nov 2017

53. How do investors in Zero-Coupon Bonds accrue returns?
(A) Through periodic interest payments that are made on a semi-annual or annual basis.
(B) Through variable dividend payments that are paid out by the issuing entity each quarter.
(C) Through the difference between the discounted issuance price and the higher face value at redemption.
(D) Through a final lump-sum interest payment that is calculated and paid only at maturity.

Ans :

(C) Through the difference between the discounted issuance price and the higher face value at redemption.
Zero-Coupon Bonds, as the name suggests, do not pay periodic interest. Instead, they are issued at a significant discount to their face value. The investor's return is the difference between the lower purchase price and the full face value (redemption value) that is paid at maturity. This implicit interest accrues over the life of the bond.

May/June 2008

54. What is the stated purpose for the issuance of Municipal Bonds?
(A) To fund the day-to-day operational expenses of the central government's various ministries.
(B) To finance socio-economic development projects on behalf of municipal corporations.
(C) To provide short-term working capital for large, publicly listed private corporations.
(D) To provide emergency capital to bail out failing commercial banks and financial institutions.

Ans :

(B) To finance socio-economic development projects on behalf of municipal corporations.
Municipal bonds are debt instruments issued by or on behalf of municipal corporations and associated bodies. Their primary purpose is to raise capital for projects aimed at socio-economic development within their jurisdiction. This can include funding for infrastructure like roads, water systems, schools, and hospitals, with a typical maturity period of around three years.

Oct/Nov 2013

55. What is the source of repayment for General Obligation (GO) Bonds issued by a municipality?
(A) The specific revenue generated from the single project being financed by the bond.
(B) Special grants that are received from the central government for this specific purpose.
(C) Profits generated from the municipality's investments in the stock market.
(D) The general revenues of the municipality, which typically include tax collections.

Ans :

(D) The general revenues of the municipality, which typically include tax collections.
General Obligation (GO) bonds are used to finance various general projects and are not tied to a single revenue-generating source. Therefore, the repayment of principal and interest on these

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(D) P-3, Q-1, R-2

Ans :

(A) P-3, Q-2, R-1
A Regular Convertible Bond gives the investor the choice to convert (P-3). A Mandatory Convertible Bond requires the investor to convert at maturity (Q-2). A Reverse Convertible Bond gives the conversion right to the issuer, not the investor (R-1). This matching correctly aligns each bond type with its defining conversion characteristic and who controls it.

May/June 2009

38. What is the typical range for the issuance period of Government Bonds (G-Secs) in India?
(A) 1 to 3 years
(B) 5 to 40 years
(C) 3 to 7 years
(D) 6 months to 1 year

Ans :

(B) 5 to 40 years
Government Bonds in India are issued by Central and state governments to manage liquidity and fund long-term needs like infrastructure development. Reflecting their use for long-term financing, these bonds serve as long-term investment tools and can be issued for periods that range from 5 years up to 40 years, providing stability to government finances.

Oct/Nov 2014

39. What is the primary reason Government Bonds (G-Secs) are considered extremely safe investments?
(A) They offer the highest possible interest rates available in the financial market.
(B) They can be converted into an equivalent value of physical gold at any time.
(C) They are insured against default by large private insurance companies.
(D) They are guaranteed by the Indian government, making default risk negligible.

Ans :

(D) They are guaranteed by the Indian government, making default risk negligible.
The paramount safety of Government Bonds, or G-Secs, stems from the fact that they are backed by the full faith and credit of the sovereign government. This sovereign guarantee means the government is obligated to repay the principal and interest, making the risk of default virtually non-existent and rendering them one of the safest possible investments.

May/June 2017

40. According to the text, what is the typical interest rate range for G-Secs?
(A) 7% to 10%
(B) 3% to 5%
(C) 5% to 7%
(D) 10% to 12%

Ans :

(A) 7% to 10%
The text specifies the interest rate range for Government Securities (G-Secs) in the Indian bond market. It states that the interest rate on G-Secs generally varies between 7% and 10%. This information provides a factual benchmark for the returns one can expect from these sovereign-guaranteed instruments, which are available to a wide range of investors.

Oct/Nov 2025

41. What is the defining characteristic of a fixed-rate government bond?
(A) The interest rate changes annually based on the official rate of inflation reported by the government.
(B) The investor can choose their preferred interest rate from a given range at the time of purchase.
(C) The interest rate is fixed for the entire tenure of the bond and does not change.
(D) The interest rate is reset every quarter based on a specified benchmark rate like the MIBOR.

Ans :

(C) The interest rate is fixed for the entire tenure of the bond and does not change.
A fixed-rate bond is characterized by an interest rate that is set at the time of issuance and remains constant for the entire life of the bond. This provides certainty of income for the investor, as the returns are not affected by any subsequent fluctuations in market interest rates, making it a predictable investment.

May/June 2011

42. What is the primary mechanism that helps floating rate bonds (FRBs) mitigate interest rate risk for an investor?

NODIA

May/June 2012

60. What is the term for the amount of money charged by an insurer for a certain amount of insurance coverage?
(A) Deductible
(B) Premium
(C) Co-payment
(D) Claim

Ans :

(B) Premium
The premium is the specific amount of money that the insured (policyholder) must pay to the insurer (insurance company) in exchange for the insurance coverage detailed in the policy. This payment, which can be made periodically (e.g., monthly or yearly), keeps the insurance contract active and ensures the insurer's obligation to cover potential losses.

Oct/Nov 2010

61. What does the insured or policyholder receive from the insurer as part of the contract?
(A) A formal certificate granting a share of the insurance company's annual corporate profits.
(B) A savings account statement showing a guaranteed investment return on the premiums paid.
(C) An insurance policy that details the specific conditions for receiving financial compensation.
(D) A membership card providing a permanent discount on all future products sold by the company.

Ans :

(C) An insurance policy that details the specific conditions for receiving financial compensation.
The tangible part of the insurance agreement received by the policyholder is the insurance policy. This is a formal contract that meticulously details the terms, conditions, and circumstances under which the insured will be financially compensated by the insurer for a covered loss. It serves as the legal document governing the relationship and obligations of both parties.

May/June 2005

62. Consider a family where one person is the sole income earner. What is the primary purpose of an insurance policy in the event of this person's unexpected premature death?
(A) To pay only for the immediate funeral and related ceremonial expenses that are incurred.
(B) To professionally invest the premiums paid in order to generate high market returns for heirs.
(C) To provide a small, one-time payment to the government as a form of estate or inheritance tax.
(D) To provide a substantial sum to compensate for the family's loss of income.

Ans :

(D) To provide a substantial sum to compensate for the family's loss of income.
In the scenario of a sole income earner's premature death, the family faces a catastrophic loss of income. The primary purpose of an insurance policy in this high-risk situation is to provide a guaranteed, substantial financial benefit. This sum is intended to compensate for the lost income, helping the family manage their day-to-day needs and maintain financial stability.

Oct/Nov 2022

63. Based on the provided diagram of insurance types, which policy is designed to protect a family in unforeseen situations like death or accidental death?
(A) Life Insurance
(B) Health Insurance
(C) Disability Insurance
(D) Home Insurance

Ans :

(A) Life Insurance
As depicted in the diagram and explained in the accompanying text, Life Insurance is the specific type of policy designed to protect a family from the financial consequences of unforeseen events such as the policyholder's death or accidental death. It provides a financial benefit to the surviving family members or nominees to help them cope with the loss.

May/June 2016

64. What type of insurance provides a lumpsum benefit to the nominee of the insured person after their death?
(A) Health Insurance
(B) Term Life Insurance
(C) Auto Insurance
(D) Disability Insurance

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investors who want to moderate their exposure to equity market volatility.

May/June 2022

14. What is the defining characteristic of a Sectorial Fund?
(A) It invests money in a single, pre-selected industry sector like IT or Pharma.
(B) It invests in a highly diversified mix of all major sectors present in the economy.
(C) It invests exclusively in various government-issued debt and treasury instruments for safety.
(D) It invests in both equity and debt instruments in a fixed 50:50 asset allocation ratio.

Ans :

(A) It invests money in a single, pre-selected industry sector like IT or Pharma.
A Sectorial Fund, or sector fund, is a type of equity fund that concentrates its investments in a single industry or sector of the economy, such as Information Technology (IT), Banking, Pharmaceuticals (Pharma), or FMCG. The fund manager's stock selection is controlled by and limited to the chosen sector, making it a high-risk, high-return proposition.

Oct/Nov 2011

15. What is the mandatory lock-in period for investments made in Equity Linked Savings Schemes (ELSS)?
(A) 1 year
(B) 5 years
(C) There is no lock-in period.
(D) 3 years

Ans :

(D) 3 years
Equity Linked Savings Schemes (ELSS), also known as tax-saving funds, offer tax deductions under Section 80C of the Income Tax Act. A key feature and regulatory requirement for these funds is that they come with a mandatory lock-in period of 3 years from the date of investment, during which the investor cannot redeem their units.

May/June 2025

16. An investor is confident about the long-term growth of the Indian banking industry and wants to concentrate their investment to maximize returns from that specific area. Which mutual fund category should they choose?
(A) A Balanced Mutual Fund
(B) A Sectorial Fund focused on Banking
(C) A Debt Mutual Fund
(D) An Equity Linked Savings Scheme (ELSS)

Ans :

(B) A Sectorial Fund focused on Banking
The investor's goal is to focus on a single industry (banking) to capitalize on its expected growth. This aligns perfectly with the objective of a Sectorial Fund. A banking sector fund would invest its entire corpus in the stocks of various banking companies, providing concentrated exposure to that specific industry, which matches the investor's stated preference.

Oct/Nov 2015

17. Which type of mutual fund allows an investor to invest and redeem money at any time, regardless of circumstances?
(A) Close-ended Fund
(B) Sectorial Fund
(C) Open-ended Fund
(D) Equity Linked Savings Scheme (ELSS)

Ans :

(C) Open-ended Fund
Based on structure, mutual funds are classified as open-ended or close-ended. An Open-ended Fund is characterized by its liquidity, allowing investors to buy (invest) or sell (redeem) units at any time as per their needs and strategies. The fund's size expands or contracts based on these investor transactions, offering high flexibility.

NODIA

May/June 2007

18. What is a key feature of a Close-ended Mutual Fund?
(A) They allow investors to redeem their units at any point in time without any restrictions.
(B) They have a flexible number of units and are not traded on public stock exchanges.
(C) They invest only in very short-term money market instruments with high liquidity.
(D) They have a lock-in period, typically 1 to 3 years, before which redemption is not possible.

Ans :

(D) They have a lock-in period, typically 1 to 3 years, before which redemption is not possible.

(B) A type of personal loan provided by a fund manager directly to an individual investor.
(C) A tool where funds from many investors are pooled to buy a portfolio of securities.
(D) A government-sponsored scheme that guarantees a fixed annual rate of return on investment.

Ans :

(C) A tool where funds from many investors are pooled to buy a portfolio of securities.
A mutual fund is a professionally managed investment vehicle. It operates by pooling money from many different investors and then investing this collective capital in a diversified portfolio of securities. This portfolio can include stocks, bonds, money market instruments, and other assets, allowing small investors to access a diversified range of investments.

May/June 2017

70. Who is responsible for investing a mutual fund's capital and maintaining its structured portfolio?
(A) The individual investors themselves, who vote on every trade decision.
(B) The fund manager, also referred to as the portfolio manager.
(C) A government regulatory agency that directs the fund's investment choices.
(D) An automated trading algorithm that operates with no human oversight.

Ans :

(B) The fund manager, also referred to as the portfolio manager.
In India, mutual funds are managed by professionals known as fund managers or portfolio managers. They are responsible for making the investment decisions for the fund, which includes investing its capital to generate gains and income for the investors. They also maintain a structured portfolio designed to match the fund's stated investment objectives.

Oct/Nov 2025

71. A mutual fund is described as a "basket" of investment options. What does this "basket" concept primarily offer to an investor?
(A) A legal guarantee of high short-term profits with no possibility of capital loss.
(B) A concentrated way to invest in a single, high-performing company's stock.
(C) A fixed interest rate that is similar to a traditional bank-issued fixed deposit.
(D) Instant diversification across various securities, industries, or asset classes.

Ans :

(D) Instant diversification across various securities, industries, or asset classes.
The "basket" analogy for a mutual fund highlights its core benefit of diversification. By investing in a single mutual fund, an investor gains exposure to a wide variety of underlying securities, such as a basket of different shares, bonds, or a mix of instruments. This diversification helps to spread risk across multiple assets or sectors.

May/June 2011

72. Which type of mutual fund invests primarily in stock markets with returns based on stock performance?
(A) Equity Mutual Funds
(B) Debt Mutual Funds
(C) Balanced Mutual Funds
(D) Sectorial Funds

Ans :

(A) Equity Mutual Funds
Equity Mutual Funds are categorized by their investment objective, which is to invest money primarily in the stock markets. The returns generated by these funds are directly linked to the performance of the stocks they hold in their portfolio. They are often considered a suitable option for long-term wealth creation, albeit with higher risk.

Oct/Nov 2020

73. An investor wants to minimize equity investment risk while still participating in the market. Which type of mutual fund would be most suitable?
(A) Equity Mutual Funds
(B) Debt Mutual Funds
(C) Balanced Mutual Funds
(D) Sectorial Funds

Ans :

(C) Balanced Mutual Funds
Balanced Mutual Funds are designed for investors seeking a middle path between growth and safety. These funds invest partially in equities to capture growth potential and partially in debt instruments to provide stability and minimize overall risk. This hybrid approach is preferred by

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PMS is a tailor-made professional service designed for a niche segment of clients, typically high-net-worth individuals. It provides professional management while allowing the client to own individual securities and have the freedom and flexibility to tailor the portfolio to their personal preferences and goals. This aligns perfectly with the client's requirement for customization and direct ownership.

Oct/Nov 2016

83. What is a Real Estate Investment Trust (REIT)?

(A) A government agency that formally regulates all real estate transactions within a country.

(B) A type of mutual fund that invests only in the stocks of publicly listed real estate companies.

(C) An organisation that owns and operates income-generating real estate portfolios.

(D) A construction company that primarily focuses on building and selling residential properties.

Ans :

(C) An organisation that owns and operates income-generating real estate portfolios.

A Real Estate Investment Trust (REIT) is described as an organization that owns and operates real estate assets with the primary goal of generating a regular flow of income. These entities manage portfolios of properties and mortgages, generate rental income, and distribute most of this income to investors as dividends, providing access to real estate returns.

May/June 2013

84. How do REITs provide an opportunity for small investors to invest in real estate?

(A) By offering small, subdivided plots of land for direct purchase by individual investors.

(B) By providing low-interest mortgage loans for the purchase of residential property.

(C) By selling shares of individual properties directly to investors, rather than a portfolio.

(D) By operating through a common pooling of resources, allowing for smaller investment sizes.

Ans :

(D) By operating through a common pooling of resources, allowing for smaller investment sizes.

Real estate typically requires large, big-ticket investments, which can be a barrier for small investors. REITs overcome this by operating through a common pooling of resources. They collect capital from numerous investors, allowing individuals to park smaller amounts of funds in a large, diversified portfolio of real estate assets, thus democratizing real estate investing.

Oct/Nov 2024

85. What is the primary source of income for a REIT that is distributed as dividends to investors?

(A) Short-term profits generated from rapidly buying and selling properties at a high price.

(B) Interest earned on high-yield loans that are given to other unrelated companies.

(C) Rental income generated from its portfolio of owned real estate assets.

(D) Consulting fees that are charged for providing real estate advisory services to third parties.

Ans :

(C) Rental income generated from its portfolio of owned real estate assets.

The core business model of a REIT involves managing real estate portfolios, which includes leasing services for the properties they own. The rental income generated from these leasing activities forms the primary and regular flow of income for the REIT. This income is then distributed among the investors in the form of dividends.

May/June 2005

86. What is the first step in the 360-degree approach to retirement planning?

(A) Immediately investing the client's funds into a portfolio of high-growth technology stocks.

(B) Understanding the client's needs, risk appetite, and life-stage goals.

(C) Drawing up a standard, pre-defined asset allocation plan without any client consultation.

(D) Purchasing a pre-packaged annuity product from a specific, designated insurance company.

Ans :

(B) Understanding the client's needs, risk appetite, and life-stage goals.

Retirement planning requires a comprehensive, 360-degree approach. This process does not start with products or investments, but with the client. The essential first step is to thoroughly understand the client's unique situation,

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Close-ended Funds are structured with a fixed maturity date and a time-bound investment horizon. A defining feature is that they impose a lock-in period, which is stated to be mostly within 1 to 3 years. During this period, an investor cannot redeem their units directly from the fund, providing stability to the fund manager's investment strategy.

Oct/Nov 2019

79. What is a Systematic Investment Plan (SIP)?

(A) A disciplined way of investing a fixed amount in a mutual fund at regular intervals.

(B) A facility to withdraw a fixed amount of money from a mutual fund at regular, chosen intervals.

(C) A method for making a one-time, large lump sum investment into a mutual fund scheme.

(D) A specialized investment plan that invests only in government-issued securities and bonds.

Ans :

(A) A disciplined way of investing a fixed amount in a mutual fund at regular intervals.

A Systematic Investment Plan (SIP) is a popular and disciplined method of investing in mutual funds. It allows an investor to invest a pre-determined, fixed sum of money into a selected mutual fund scheme at regular, pre-defined intervals, such as every month or quarter. This helps in averaging the cost of purchase over time.

May/June 2010

80. What function does a Systematic Withdrawal Plan (SWP) provide to an investor?

(A) It allows an investor to automatically invest more money into a fund when the market is down.

(B) It allows an investor to withdraw a fixed amount from their mutual fund at pre-determined intervals.

(C) It automatically switches investments between different equity and debt funds based on market signals.

(D) It provides a single, guaranteed lump-sum payout at the end of a fixed investment term.

Ans :

(B) It allows an investor to withdraw a fixed amount from their mutual fund at pre-determined intervals.

A Systematic Withdrawal Plan (SWP) is a facility that works opposite to an SIP. It enables an investor to withdraw a fixed amount of money from their mutual fund investment at a chosen frequency (e.g., monthly). On the set date, a corresponding number of units are sold from the portfolio, and the funds are transferred to the investor's account.

Oct/Nov 2021

81. How does ownership in Portfolio Management Services (PMS) differ from ownership in a mutual fund?

(A) In PMS, the investor owns units of a fund, while in a mutual fund, they own individual securities.

(B) In PMS, the investor owns individual securities, while in a mutual fund, they own units of the fund.

(C) There is no difference in ownership structure; in both, the investor owns units of a pooled fund.

(D) In PMS, ownership of the securities is legally shared between the investor and the portfolio manager.

Ans :

(B) In PMS, the investor owns individual securities, while in a mutual fund, they own units of the fund.

A key distinction lies in the nature of ownership. When investing in a mutual fund, an investor owns units that represent a share of the overall fund's portfolio. In contrast, with Portfolio Management Services (PMS), the investor directly owns the individual securities (stocks, bonds, etc.) in their account, which is managed by the professional manager.

May/June 2018

82. An HNI client wants a highly customized investment portfolio tailored to their specific financial goals and preferences, with the flexibility to directly hold individual stocks. Which service would be more appropriate for them?

(A) Portfolio Management Services (PMS)

(B) A large-cap equity mutual fund

(C) A Systematic Investment Plan (SIP) into a balanced fund

(D) A corporate fixed deposit

Ans :

(A) Portfolio Management Services (PMS)

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(D) Offering standard consumer loans, such as car loans and mortgages, at slightly discounted rates.

Ans :

(C) Providing access to a wide variety of exclusive investments, including hedge funds and real estate.

High-net-worth individuals (HNIs) possess significant wealth, enabling them to access more sophisticated investment opportunities. Private banking caters to this by offering their clients information, advice, and access to a much larger variety of investments that are typically unavailable to the average retail investor, such as hedge funds and private real estate deals.

NODIA

May/June 2012

100. Which of the following are stated benefits of wealth management?

1. It functions on a relationship-based approach.
2. It helps in the systematic creation of a financial plan and corpus.
3. It provides personalized services as there is no "one size fits all" formula.
4. It offers a flexible investment approach that considers market conditions.

(A) 1 and 2 only
(B) 2, 3 and 4 only
(C) 1, 2 and 3 only
(D) 1, 2, 3 and 4

Ans :

(D) 1, 2, 3 and 4

The text outlines several key benefits of engaging with wealth management services. These include working on a relationship-based approach like a trusted friend, systematically creating a financial plan, eliminating financial stress, providing personalized services because every client is unique, and employing a flexible investment approach that adapts to market conditions and client needs. All four statements are correct.

including their specific needs, their tolerance for risk (risk appetite), and their various goals at different stages of life.

Oct/Nov 2023

87. In the context of retirement planning, what is the role of a Wealth Manager described as?

(A) A product salesperson who is focused primarily on earning sales commissions.
(B) A passive observer who only monitors the performance of the client's investments.
(C) A tax officer responsible for auditing the client's retirement funds for compliance.
(D) The customer's retirement friend, advising and developing tailor-made solutions.

Ans :

(D) The customer's retirement friend, advising and developing tailor-made solutions.
The role of a Wealth Manager in retirement planning is positioned as that of a trusted partner or "retirement friend." Their responsibility is to be proactive in advising the client and developing customized, tailor-made solutions across various asset classes. This collaborative and supportive role is aimed at helping the client successfully plan for their retirement years.

May/June 2014

88. Beyond accumulating a retirement corpus, what other guidance do Good Wealth Managers provide?

(A) Facilitating economic insurance covers and guidance to optimize tax benefits.
(B) Specific advice on career changes and professional development opportunities for the client.
(C) Offering exclusive discounts on various consumer goods and travel services.
(D) Managing the day-to-day household budget and bill payments for the retiree.

Ans :

(A) Facilitating economic insurance covers and guidance to optimize tax benefits.
A good Wealth Manager's role in retirement planning is holistic. In addition to helping accumulate a retirement corpus, they provide crucial guidance on other financial aspects. This includes facilitating the most economical insurance covers to protect the client's wealth and offering advice on how to optimize tax benefits, thereby maximizing the net returns and financial security.

Oct/Nov 2009

89. What does "Strategic Asset Optimization" involve?

(A) A strategy focused solely on maximizing savings in traditional, low-yield bank accounts.
(B) Encouraging clients to spend more of their income to help boost the national economy.
(C) Helping clients manage taxation, savings, investments, and asset restructure.
(D) A strategy of investing in a single asset class to achieve highly concentrated growth.

Ans :

(C) Helping clients manage taxation, savings, investments, and asset restructure.
Strategic Asset Optimization is a comprehensive service where Wealth Managers support clients in optimizing their assets. This involves helping them manage their taxation and savings effectively, providing advice on their investments, and assisting with strategies like asset restructure or arbitrage to improve the overall efficiency and performance of their financial portfolio.

May/June 2019

90. What is the purpose of "wealth auditing" as assisted by a Wealth Manager?

(A) To obtain a global vision of the client's finances to define an asset strategy.
(B) To prepare the client for an official tax audit conducted by a government revenue agency.
(C) To find and document faults in the client's past financial decisions for internal records.
(D) To create a detailed plan to liquidate all of the client's non-cash assets immediately.

Ans :

(A) To obtain a global vision of the client's finances to define an asset strategy.
Wealth auditing, as part of strategic asset optimization, is a process where the Wealth Manager helps the client analyze their complete financial situation. The objective is to obtain a global, holistic vision of their assets, liabilities, and cash flows. This comprehensive understanding is then used to define a clear asset strategy and plan any necessary financial actions.

NODIA

Ans :

(B) Term Life Insurance
Term life insurance is a specific type of life insurance that offers financial safety by providing a pre-determined lumpsum benefit. This benefit is paid directly to the nominee designated by the insured person, but only upon the death of the insured during the policy's term, offering a straightforward and affordable way to secure a family's future.

Oct/Nov 2007

65. Which insurance policy facilitates coverage against surgical and medical expenses?
(A) Disability Insurance
(B) Health Insurance
(C) Home Insurance
(D) Travel Insurance

Ans :

(B) Health Insurance
Health insurance is specifically designed to provide financial coverage for healthcare-related costs. It facilitates a person's ability to insure themselves against a wide range of expenses, including the costs of surgical procedures and other medical treatments. This helps mitigate the financial burden that can arise from unexpected illness or injury, making healthcare more accessible.

May/June 2023

66. Which type of insurance would protect a person's house against damages from fire or an earthquake?
(A) Home Insurance
(B) Auto Insurance
(C) Life Insurance
(D) Travel Insurance

Ans :

(A) Home Insurance
Home insurance is the policy designed to protect one's house and its contents from various perils. The coverage typically includes protection against damages caused by events such as structural damage, fire, earthquakes, and theft. It provides financial compensation to repair or rebuild the property and replace lost belongings, safeguarding a significant personal asset.

Oct/Nov 2018

67. According to the list of protections provided by insurance, which of the following is a specified coverage area?
(A) Protecting an investment portfolio against poor stock selection decisions made by an investor.
(B) Ensuring a policyholder receives a guaranteed promotion at their place of work.
(C) Protecting business against the loss or disability of a critical employee.
(D) Covering any financial losses that result from general stock market volatility.

Ans :

(C) Protecting business against the loss or disability of a critical employee.
The text provides a detailed list of risks that insurance can protect against. Among them is "Protecting business against the loss or disability of a critical employee," often known as key person insurance. This coverage helps a business mitigate the financial impact resulting from the sudden absence of an individual vital to its operations.

May/June 2009

68. Insurance is described as one of the best risk protection and prevention tools and a crucial part of what?
(A) A short-term, high-liquidity savings strategy
(B) A long-term corporate expansion plan
(C) A daily or weekly household budgeting exercise
(D) A great financial planning process

Ans :

(D) A great financial planning process
The text emphasizes that insurance is a fundamental tool for risk protection and prevention. Selecting the right type of protection based on one's needs is identified as a very crucial part of a great financial planning process. It serves as a defensive strategy to safeguard wealth and financial stability against unforeseen and potentially catastrophic events.

Oct/Nov 2014

69. What is a mutual fund?
(A) A type of high-interest savings account that is managed by a single private investor for their benefit.

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(B) To maximize current expenditure on lifestyle goods and minmize long-term savings goals.
(C) To focus only on building a long-term emergency fund for unexpected future events.
(D) To create a complex investment plan that is intentionally difficult for a client to understand.

Ans :

(A) To allocate revenue to expenses and organize finances to optimize savings.
The fundamental idea behind personal financial planning is to create a clear and systematic process for managing one's finances. This involves lucidly allocating income (revenue) to cover life's various expenses, from bills to larger goals. It also includes following specific steps to organize finances, curtail unnecessary expenditure, and optimize savings for the future.

May/June 2015

96. What components are typically compiled during a wealth management assessment?
(A) Only the client's educational qualifications, work experience, and professional resume.
(B) Basic financial statements like cash flow, balance sheets, and income statements.
(C) A detailed list of the client's personal hobbies, interests, and travel history.
(D) The client's complete social media activity and their overall online presence.

Ans :

(B) Basic financial statements like cash flow, balance sheets, and income statements.
A wealth management assessment is a foundational process for successful private wealth management. It involves compiling and analyzing basic financial statements to get a complete picture of the client's financial health. This includes the personal income statement (income vs. expenses), the cash flow statement, and the personal balance sheet (assets vs. liabilities).

Oct/Nov 2006

97. A person earns ₹30,000 and plans a personal budget to contribute 20% to savings and 80% to expenses. What does this activity represent?
(A) The process of applying for a bank loan
(B) A basic example of financial assessment
(C) The legal creation of a will
(D) The purchase of an insurance policy

Ans :

(B) A basic example of financial assessment
This scenario is presented as a basic example of a financial assessment. The process of evaluating one's income (₹30,000) versus their planned expenses and savings (80% and 20% respectively) is a fundamental part of creating a personal income statement and budget. This assessment is a crucial first step in understanding and managing one's personal finances effectively.

May/June 2020

98. What is the primary focus of Private Banking that distinguishes it from mass-market retail banking?
(A) Focusing on personalized financial services for high-net-worth individuals (HNWIs).
(B) Offering standardized, mass-market products to a large volume of anonymous customers.
(C) Providing only basic banking services like savings accounts and generic debit cards.
(D) Operating exclusively through digital channels with no direct human relationship manager.

Ans :

(A) Focusing on personalized financial services for high-net-worth individuals (HNWIs).
Unlike mass-market retail banking, which serves a broad customer base with standardized products, private banking focuses on a niche segment: high-net-worth individuals (HNWIs). Its key differentiator is the provision of highly personalized financial services, delivered through dedicated banking personnel, to meet the complex and unique needs of its wealthy clients.

Oct/Nov 2021

99. Which of the following is a key service provided by private banks to their HNI clients?
(A) Offering significantly higher interest rates on basic savings accounts compared to all other retail banks.
(B) Managing the complete payroll and human resources services for the client's personal employees.
(C) Providing access to a wide variety of exclusive investments, including hedge funds and real estate.

NODIA

Oct/Nov 2008

91. What is a "Will" in a legal context?
(A) A document that automatically transfers all of a person's assets to the government upon death.
(B) A non-binding suggestion for how assets should be distributed among family members.
(C) A binding contract that forces a person to sell all their assets before their death.
(D) A legal declaration of a person's wishes regarding their property and assets after death.

Ans :

(D) A legal declaration of a person's wishes regarding their property and assets after death.
A Will is a formal legal document. It represents a person's declaration of their desires concerning their properties and assets. The purpose of this declaration is to pre-define how these assets should be distributed among eligible inheritors after the person's death, ensuring their wishes are carried out and providing legal clarity for the heirs.

May/June 2024

92. What happens if a person dies "intestate"?
(A) All of their personal and financial assets are frozen indefinitely by the court system.
(B) Their assets are distributed to legal heirs in a standard way defined by the Succession Act.
(C) A wealth manager is automatically appointed by the state to decide asset distribution.
(D) The person's immediate family is legally free to distribute the assets as they see fit.

Ans :

(B) Their assets are distributed to legal heirs in a standard way defined by the Succession Act.
Dying intestate means dying without having made a valid will. In such a case, the distribution of the deceased person's property is not based on their unstated wishes. Instead, everything they owned is distributed among the legal heirs according to the rigid, standard formula prescribed by the applicable Succession Act, which may not align with their desires.

Oct/Nov 2017

93. Mr. Kumar, who has two children financially dependent on him, passes away without a will. His personal wish was to leave a specific property to a close friend who cared for him. What is the likely outcome for this property?
(A) The property will be given to the close friend, as his verbal wishes are legally recognized.
(B) The court will hold a hearing to decide who is most deserving of inheriting the property.
(C) The property will be distributed among his legal heirs (his children) as per the Succession Act.
(D) The property will be automatically sold and the proceeds will be donated to a registered charity.

Ans :

(C) The property will be distributed among his legal heirs (his children) as per the Succession Act.
Since Mr. Kumar died intestate (without a will), his personal wishes are not legally enforceable. The distribution of his assets, including the specific property, will be governed by the standard rules of the relevant Succession Act. This means the property will be passed on to his legal heirs, his children, regardless of his un-documented desire to give it to his friend.

May/June 2008

94. Private Wealth Management is a service specifically for which client type?
(A) Corporations, trusts, and large institutional groups
(B) Government entities and public sector undertakings
(C) Non-profit organizations and charitable foundations
(D) Private individuals

Ans :

(D) Private individuals
The term "Private Wealth Management" itself clarifies its target clientele. This service entails financial planning, portfolio management, and other aggregated financial services specifically for private individuals. It does not account for the needs of corporations, trusts, groups, or other types of institutional clients, and is also referred to as personal wealth management.

Oct/Nov 2013

95. What is the basic idea of personal financial planning?
(A) To allocate revenue to expenses and organize finances to optimize savings.

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CHAPTER 24

Investment Management

Oct/Nov 2022

1. In the context of personal finance, what is the primary outcome when an individual's income exceeds their expenditure on goods and services?
(A) Borrowing
(B) Saving
(C) Investing
(D) Consuming

Ans :

(B) Saving
When income is greater than consumption or expenditure, the difference results in surplus money, which is defined as saving. This surplus can then be used for future consumption or investment. Saving is the fundamental prerequisite for investment, representing the portion of income not spent on immediate wants and needs, creating a pool of funds for future use.

May/June 2011

2. According to the fundamental equation of personal finance, how is 'Saving' calculated?
(A) Saving = Income – Expenditure
(B) Saving = Income + Expenditure
(C) Saving = Expenditure – Income
(D) Saving = (Income + Expenditure) / 2

Ans :

(A) Saving = Income – Expenditure
The relationship between saving, income, and expenditure is defined by a simple equation. Saving is what remains after expenditure is subtracted from income. This represents the surplus funds an individual or entity has after meeting all their consumption needs. This surplus amount is then available for the purpose of investment or holding for future needs.

Oct/Nov 2017

3. What is the defining characteristic of an 'investment' in layman's terms?
(A) Increasing immediate consumption by using future income
(B) Storing surplus money under a mattress for future security
(C) Sacrificing present consumption to get a return in the future
(D) Exchanging physical assets for immediate cash flow

Ans :

(C) Sacrificing present consumption to get a return in the future
Investment fundamentally means forgoing the immediate use or consumption of money with the expectation of receiving a larger amount in the future. This act of deferring consumption is undertaken with the aim of generating a return, which could be in the form of income or capital appreciation, thereby increasing future wealth and consumption capacity.

NODIA

May/June 2025

4. Which of the following best describes a 'prospective investor'?
(A) An individual who needs to borrow money for immediate consumption
(B) An institution whose expenditure is currently higher than its income
(C) A firm that needs to liquidate assets to cover operational costs
(D) An individual or institution with surplus money available for investment

Ans :

(D) An individual or institution with surplus money available for investment
Prospective investors are defined as individuals or institutions that possess surplus funds, meaning their income exceeds their immediate consumption needs. These entities, including individuals, corporations, banks, NGOs, and governments, seek to deploy their surplus money into various assets with the expectation of earning a future return, either through income generation or capital growth.

Oct/Nov 2006

5. From a financial manager's perspective, what does 'investment' primarily involve?
(A) Increasing a nation's capital stock through the creation of new productive assets
(B) Exchanging long-term financial claims for the purpose of meeting immediate consumption needs
(C) Committing money to assets with the expectation of generating future income or capital appreciation
(D) A net addition to the total economic output of goods and services within a specific period

Ans :

(C) Committing money to assets with the expectation of generating future income or capital appreciation
While economists view investment as an addition to a nation's capital stock, a financial manager's perspective is more specific. It focuses on the strategic allocation of money to various assets, such as shares, bonds, or real estate. The primary goal is to generate future income or achieve capital growth over a specified period.

May/June 2013

6. Which of the following are the two fundamental elements of any investment?
(A) Return and Liquidity
(B) Time and Risk
(C) Safety and Time
(D) Risk and Return

Ans :

(B) Time and Risk
Every investment is characterized by two core elements: time and risk. The time element relates to sacrificing present consumption for a future benefit. The risk element arises because while the sacrifice (the investment) is certain, the future return is uncertain. This uncertainty of outcome is the inherent risk factor in any investment activity.

Oct/Nov 2024

7. In the context of investment, what does 'Return' primarily signify?
(A) The initial principal amount committed at the start of the investment period
(B) The total transactional and administrative costs incurred during the investment's lifecycle
(C) The overall safety of the principal amount from any potential market or credit loss
(D) The income or capital appreciation generated as a reward for committing capital

Ans :

(D) The income or capital appreciation generated as a reward for committing capital
The prime objective of any investment is to generate a return. This return can manifest as regular income, such as interest, dividends, or rent. It can also be in the form of capital appreciation, which is the positive difference between the selling price and the buying price of the asset. The expected return is a key driver of investment decisions.

May/June 2008

8. What is the relationship between risk and expected return in a typical investment scenario?
(A) More the risk, normally more is the expected return
(B) More the risk, normally less is the expected return
(C) Less the risk, normally more is the expected return
(D) Risk and expected return are unrelated

Ans :

(A) More the risk, normally more is the expected return
Risk, defined as the variability in returns, is a basic attribute of investment. A fundamental principle in finance is the positive relationship between risk and expected return. Generally, investors demand a higher potential return to compensate them for taking on a higher level of risk. Conversely, lower-risk investments typically offer lower expected returns.

Oct/Nov 2015

9. Which element of investment ensures that an investor gets back their original principal on maturity without loss in value?
(A) Return
(B) Liquidity
(C) Safety
(D) Risk

Ans :

(C) Safety
Safety refers to the preservation of the principal amount invested. The safety rule of investment

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dictates that the investor should be able to recover their initial capital at the end of the investment period without any erosion in its value and without undue hindrance. It is a critical consideration, particularly for risk-averse investors who prioritize capital protection.

May/June 2019

10. The ability to sell an investment in the market as the need arises without incurring significant transaction costs or time delays is known as:
(A) Liquidity
(B) Safety
(C) Return
(D) Profitability

Ans :

(A) Liquidity
Liquidity is the ease and speed with which an investment can be converted into cash without a substantial loss in its value. A highly liquid asset can be sold quickly in the market with minimal transaction costs, time, and effort. This element is crucial for investors who may need to access their funds on short notice.

Oct/Nov 2012

11. Which of the following is NOT considered a primary or secondary objective of investment?
(A) Hedging against inflation
(B) Safety of principal
(C) Regular income
(D) Maximizing transaction costs

Ans :

(D) Maximizing transaction costs
The objectives of investment are centered around wealth creation and preservation. These include maximizing returns, minimizing risk, ensuring safety and liquidity, and hedging against inflation. Maximizing transaction costs is contrary to investment objectives, as investors aim to minimize all costs associated with buying and selling assets to enhance their net returns.

May/June 2006

12. Investment management is also known by which of the following terms?
(A) Liability management and debt restructuring
(B) Money management, portfolio management, or wealth management
(C) Credit management and loan origination
(D) Corporate finance and treasury operations

Ans :

(B) Money management, portfolio management, or wealth management
Investment management is a broad field that encompasses several related disciplines. It is often referred to interchangeably as money management, portfolio management, or wealth management. All these terms relate to the professional handling of financial assets and other investments to achieve specific financial goals for a client, whether an individual or an institution.

Oct/Nov 2019

13. Which of the following services is typically included in professional investment management?
(A) The simple execution of buy and sell orders based on direct client instructions
(B) The administration of corporate loans and other credit-based facilities for businesses
(C) Strategic asset allocation, in-depth financial statement analysis, and careful stock selection
(D) The operational management of physical inventory and tangible corporate property

Ans :

(C) Strategic asset allocation, in-depth financial statement analysis, and careful stock selection
Professional investment management offers a comprehensive suite of services beyond simple trading. These services include strategic asset allocation, detailed financial statement analysis to evaluate securities, careful stock selection, continuous monitoring of investments, and implementing the overall portfolio strategy. It can also extend to broader financial planning and advisory services for the client.

NODIA

May/June 2021

14. What is a common compensation structure for investment managers?
(A) A fixed annual salary paid by the client, regardless of the portfolio's asset value
(B) A one-time commission charged only on the very first transaction executed for the portfolio
(C) A variable fee based on the total number of transactions executed within a given period
(D) A recurring management fee, typically calculated as a percentage of the portfolio's

May/June 2012

24. As intermediaries, how do investment banks facilitate the process of a new firm going public?

(A) They either purchase all shares to resell or act as an agent to sell shares on the issuer's behalf

(B) They provide the entirety of the initial capital required for the public offering from their own funds

(C) They exclusively offer specialized loans to the general public to encourage the purchase of new shares

(D) They mandate that the new firm must first merge with an existing, established public company

Ans :

(A) They either purchase all shares to resell or act as an agent to sell shares on the issuer's behalf

When helping a new firm go public, investment banks act as intermediaries between the security issuer and the investors. They can operate in two main ways: either they purchase the entire share issue at a pre-determined price and then resell it to the public (underwriting), or they act as an agent, selling the shares on behalf of the issuer for a commission.

Oct/Nov 2025

25. In the pictorial representation of investment banking, what is the role of the 'Sell side'?

(A) It represents the investors buying securities.

(B) It represents the institutions that manage funds.

(C) It represents the investment banks connecting corporates and institutions.

(D) It represents the corporations issuing bonds or shares.

Ans :

(C) It represents the investment banks connecting corporates and institutions.

In the diagram, the 'Sell side' is positioned as the central entity, which is the Investment Bank. It establishes contacts with both 'Corporates' (who issue securities) and 'Institutions' (the 'Buy side' that purchases securities). This illustrates the investment bank's role as the intermediary that facilitates the sale of securities from issuers to investors.

May/June 2007

26. What is the key distinction between a full-service investment bank and an investment banking division (IBD) of a bank?

(A) A full-service bank offers a wide range of services, while an IBD focuses only on underwriting and M&A.

(B) A full-service bank only does underwriting, while an IBD does M&A.

(C) An IBD offers a wide range of services, including retail banking.

(D) There is no difference; the terms are perfectly interchangeable.

Ans :

(A) A full-service bank offers a wide range of services, while an IBD focuses only on underwriting and M&A.

A full-service investment bank provides a broad spectrum of financial services, including underwriting, M&A, sales and trading, equity research, and even commercial and retail banking. In contrast, the Investment Banking Division (IBD) within a larger bank typically has a narrower focus, concentrating specifically on providing underwriting and M&A advisory services.

Oct/Nov 2018

27. According to the diagram on investment banking's key areas, what is the primary purpose of 'Underwriting'?

(A) Assisting in the negotiation of a merger

(B) Structuring the terms of an acquisition

(C) Providing advisory services for corporate restructuring

(D) Raising capital through selling stocks or bonds to investors

Ans :

(D) Raising capital through selling stocks or bonds to investors

The diagram clearly illustrates that 'Underwriting' is one of the two key areas of investment banking. Its function is explicitly stated as "Raising capital through selling stocks or bonds to investors (e.g. IPO)". This process serves the primary market, where new capital is created for companies and other entities seeking funds for growth and operations.

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Ans :

(C) Portfolio appraisal
The evaluation of a portfolio's performance is also known as portfolio appraisal. This step involves measuring the risk and return of the securities within the portfolio over time and comparing these actual results against the expected risk and return. This appraisal acts as a warning system for potential losses and guides future actions.

May/June 2005

20. What action is taken during the 'Revision of portfolio' step if the current portfolio is not meeting its objectives?
(A) Immediately liquidating the entire portfolio and holding all proceeds in cash
(B) Adding more funds to the currently underperforming securities to lower the average cost
(C) Doubling down on the existing strategy and assets regardless of recent performance
(D) Selling underperforming securities and reinvesting the proceeds into assets with better potential

Ans :

(D) Selling underperforming securities and reinvesting the proceeds into assets with better potential
The revision of a portfolio is a direct consequence of its appraisal. If the evaluation shows that the current portfolio is failing to meet the investment objectives, the investor or manager must take corrective action. This typically involves designing a new portfolio by selling certain less-performing or underperforming assets and reinvesting the proceeds into new securities with better potential.

Oct/Nov 2010

21. What is the primary role of an investment bank?
(A) Providing common retail banking services like savings accounts and personal loans to individuals
(B) Offering various types of insurance policies, such as life and health, to individuals and firms
(C) Acting as a key intermediary between investors with surplus funds and corporations needing capital
(D) Managing the daily operational cash flow and accounts payable for small business clients

Ans :

(C) Acting as a key intermediary between investors with surplus funds and corporations needing capital
Investment banks serve as crucial intermediaries in the financial system. Their primary function is to connect entities that have surplus money to invest (investors) with entities that require capital to grow and operate their businesses (corporations, governments). They facilitate this flow of capital through services like underwriting and M&A advisory.

May/June 2015

22. Which of the following activities is a core function of investment banking?
(A) Providing consumer credit cards
(B) Underwriting new debt and equity securities
(C) Managing mutual funds for the general public
(D) Offering property and casualty insurance

Ans :

(B) Underwriting new debt and equity securities
A central activity of investment banking is underwriting new debt and equity securities for all types of corporations, governments, and other entities. This involves helping these organizations raise capital by issuing securities to the public or institutional investors. They also aid in the sale of these securities and facilitate other complex financial transactions.

Oct/Nov 2014

23. Based on the provided text, which service involves lending money to firms specifically to purchase assets and settle acquisitions?
(A) Proprietary trading
(B) Mergers and acquisitions advisory
(C) Restructuring
(D) Leveraged finance

Ans :

(D) Leveraged finance
The source text explicitly defines leveraged finance as the service that "involves lending money to firms to purchase assets and settle acquisitions." This distinguishes it from M&A advisory, which is about helping with the M&A process, and restructuring, which focuses on improving a company's internal structure for better efficiency and profitability.

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the entire offering is cancelled, and any funds collected from investors are returned.

Oct/Nov 2009

33. Which division of an investment bank is primarily responsible for generating revenue?
(A) Back Office
(B) Front Office
(C) Middle Office
(D) Compliance Department

Ans :

(B) Front Office
The Front Office is the client-facing, revenue-generating part of an investment bank. It consists of three primary divisions: investment banking (which handles M&A and underwriting), sales & trading, and research. The activities performed by these divisions, such as deal-making and trading, directly bring in revenue for the firm, making it the core profit center.

May/June 2024

34. Which office in an investment bank's structure is responsible for functions like risk management, financial control, and compliance?
(A) Middle Office
(B) Front Office
(C) Back Office
(D) Research Department

Ans :

(A) Middle Office
The Middle Office serves a crucial support and control function, situated between the revenue-generating front office and the administrative back office. Its primary role is to ensure the bank operates soundly by managing risks. This includes functions like risk management, financial control, corporate treasury, corporate strategy, and ensuring compliance with regulations.

Oct/Nov 2021

35. What is the primary role of the Back Office in an investment bank?
(A) Generating revenue through client interactions
(B) Managing the firm's overall risk exposure
(C) Providing supporting activities like operations and technology to the front office
(D) Developing research reports on industries and firms

Ans :

(C) Providing supporting activities like operations and technology to the front office
The Back Office provides the essential administrative and operational support that enables the front office to function effectively. Its responsibilities include trade confirmation, settlement, record-keeping, regulatory compliance reporting, and maintaining the technological infrastructure. While not a revenue center, its smooth operation is vital for the bank's ability to make money.

May/June 2020

36. Which of the following statements correctly differentiates the clients of investment managers and investment bankers?
(A) Investment managers primarily serve corporations, while investment bankers cater to individual retail investors
(B) Both professionals primarily serve the same client base of governments and large financial institutions
(C) Investment managers serve government entities, while investment bankers focus on pension funds and retirement plans
(D) Investment managers serve individuals and institutions with capital, while bankers serve corporations and governments needing capital

Ans :

(D) Investment managers serve individuals and institutions with capital, while bankers serve corporations and governments needing capital
Investment managers' clients are entities with money to invest, which can include individual investors as well as institutional investors like pension funds and insurance companies. In contrast, investment bankers' clients are entities that need to raise capital or require advice on large financial transactions, which are typically corporations, governments, and other large institutions.

Oct/Nov 2007

37. Which of the following responsibilities is associated with an Investment Manager but NOT typically with an Investment Banker?
(A) Facilitating the underwriting process for new corporate debt and equity securities
(B) Providing strategic advice to corporations involved in mergers and acquisitions

NODIA

May/June 2017

28. Which service offered by a full-service investment bank focuses on matching buyers and sellers of securities in the secondary market?
(A) Underwriting
(B) Sales & Trading
(C) Mergers & Acquisitions (M&A)
(D) Asset Management

Ans :

(B) Sales & Trading
The Sales & Trading department in an investment bank is responsible for activities in the secondary market. Its primary role is to act as an agent for clients, matching buyers and sellers of existing securities. This group may also engage in proprietary trading, where it trades the firm's own capital to generate profit.

Oct/Nov 2023

29. What is the main function of the 'Equity Research' group in a full-service investment bank?
(A) To manage investments for a wide range of investors
(B) To raise capital by selling new stocks to investors
(C) To research securities to help investors make decisions and support trading
(D) To advise on the structuring of mergers and acquisitions

Ans :

(C) To research securities to help investors make decisions and support trading
The Equity Research group is responsible for providing research, or "coverage," on securities. Their analysis and reports help investors make informed investment decisions regarding buying, selling, or holding stocks. This research also provides crucial support to the bank's own sales and trading operations by offering insights into market trends and company valuations.

May/June 2022

30. In which type of underwriting does the underwriter agree to buy the entire issue and assume full financial responsibility for any unsold shares?
(A) Best Efforts
(B) All-or-None
(C) Partial Commitment
(D) Firm Commitment

Ans :

(D) Firm Commitment
Under a Firm Commitment underwriting agreement, the investment bank purchases the entire security issue from the company at an agreed-upon price. The bank then assumes the full risk of reselling these securities to the public. Any shares that remain unsold are the financial responsibility of the underwriter, not the issuing company, making it the riskiest for the bank.

Oct/Nov 2020

31. An underwriter commits to selling as much of an issue as possible but can return unsold shares to the issuer without financial penalty. What is this type of underwriting called?
(A) Best Efforts
(B) Firm Commitment
(C) All-or-None
(D) Guaranteed Sale

Ans :

(A) Best Efforts
In a Best Efforts agreement, the underwriter acts more like an agent than a principal. It agrees to use its best efforts to sell the securities at the offering price but does not guarantee the sale of the entire issue. Any unsold shares can be returned to the issuing company, shifting the risk from the underwriter to the issuer.

May/June 2016

32. What happens in an 'All-or-None' underwriting arrangement if the entire issue cannot be sold at the offering price?
(A) The underwriter is contractually obligated to buy all the remaining unsold shares
(B) The entire deal is called off and any funds collected from investors are returned
(C) The offering price is automatically lowered to attract more buyers for the remaining shares
(D) The shares that were sold are delivered and the unsold portion is returned to the issuer

Ans :

(B) The entire deal is called off and any funds collected from investors are returned
An All-or-None underwriting is a type of contingency offering. The condition is that the entire issue must be sold by the deadline for the deal to be completed. If the underwriter is unable to sell all the securities at the specified price,

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(D) An individual who prefers to keep all surplus funds in a liquid bank savings account for safety

Ans :

(C) An investor who intends to invest across different avenues but lacks sufficient knowledge or time

Portfolio management is particularly beneficial for investors who wish to diversify across various asset classes like stocks, bonds, and commodities but do not possess the required knowledge, time, or expertise to manage this process effectively. It helps them navigate market complexities and make informed decisions that align with their financial goals and risk appetite.

May/June 2009

42. What is the ultimate goal of a portfolio manager, whether working for a client or managing their own portfolio?

(A) To maximize the portfolio's expected return for a given and appropriate level of risk

(B) To construct a portfolio in a way that eliminates all possible investment risk entirely

(C) To achieve the highest possible return in the market, regardless of the risk involved

(D) To exclusively invest in domestic, government-issued assets to ensure maximum safety

Ans :

(A) To maximize the portfolio's expected return for a given and appropriate level of risk

The portfolio manager's ultimate goal is not to chase the highest possible returns at any cost, nor to eliminate risk completely. Instead, the objective is to strike a balance. They aim to maximize the expected return on the investment portfolio while ensuring that the level of risk taken is appropriate for and acceptable to the investor.

Oct/Nov 2005

43. The key to effective portfolio management that is based on the understanding that different types of assets do not move in concert is known as:

(A) Diversification

(B) Rebalancing

(C) Risk Optimization

(D) Asset Allocation

Ans :

(D) Asset Allocation

Asset allocation is the cornerstone of effective portfolio management. It involves creating a long-term mix of different asset classes, such as stocks, bonds, and cash. This strategy is founded on the principle that various asset classes have different performance cycles and do not move in perfect correlation, which helps to balance the portfolio and manage overall risk.

May/June 2017

Oct/Nov 2024

44. An investor with a conservative profile would most likely weight their portfolio towards which type of investments?

(A) Growth stocks and commodities

(B) Bonds and blue-chip stocks

(C) Derivatives and real estate

(D) International emerging market equities

Ans :

(B) Bonds and blue-chip stocks

A conservative investor prioritizes capital preservation and stable, predictable returns over high growth potential. Therefore, they would weight their portfolio towards less volatile, stable investments. Bonds, which provide fixed income, and blue-chip stocks, which are shares of large, well-established, and financially sound companies, fit this profile perfectly, offering lower risk compared to more aggressive assets.

May/June 2012

45. What is the primary purpose of 'Diversification' in portfolio management?

(A) To focus all investments in the single best-performing sector

(B) To guarantee a positive return in all market conditions

(C) To create a basket of investments to provide broad exposure and reduce volatility

(D) To increase the portfolio's risk to achieve higher returns

Ans :

(C) To create a basket of investments to provide broad exposure and reduce volatility

The core idea behind diversification is the acknowledgement that it is impossible to consistently predict winners and losers. By creating a basket of investments that spreads risk across various securities, sectors, and

NODIA

(C) Offering estate planning, retirement planning, and asset distribution services to individuals
(D) Guiding companies through the complex process of an initial public offering (IPO)

Ans :

(C) Offering estate planning, retirement planning, and asset distribution services to individuals
While both may be involved in research and recommendations, the roles differ in scope. Investment managers often provide holistic financial planning, including estate and retirement planning and asset distribution, to help clients meet long-term life goals. Investment bankers focus on corporate finance needs like capital raising (IPOs, debt issuance) and M&A advisory.

May/June 2014

38. In layman's terms, 'portfolio management' is best described as:
(A) The art of issuing new stocks and bonds for a company
(B) The art of managing an individual's investments
(C) The process of auditing a company's financial statements
(D) The science of corporate treasury and risk control

Ans :

(B) The art of managing an individual's investments
In simple terms, portfolio management is the art of managing an individual's or institution's collection of investments. This involves selecting and overseeing a group of assets like stocks, bonds, and mutual funds to achieve specific long-term financial objectives while staying within the client's risk tolerance, under the guidance of a professional portfolio manager.

Oct/Nov 2016

39. Who is a 'Portfolio Manager'?
(A) An individual who regularly audits the portfolio to ensure it meets regulatory compliance standards
(B) An individual who provides high-interest loans to clients specifically for investment purposes
(C) An individual who only executes trade orders exactly as instructed by the client without providing advice
(D) An individual who understands a client's needs to design and implement a suitable investment plan

Ans :

(D) An individual who understands a client's needs to design and implement a suitable investment plan
A portfolio manager is a professional who takes on the responsibility of managing a client's investments. Their role involves understanding the client's financial situation, goals, and risk-taking abilities to design and implement a tailored investment plan. They counsel clients and make investment decisions on their behalf to maximize returns for a given level of risk.

May/June 2018

40. Which of the following is considered a core objective of portfolio management?
(A) Capital appreciation and risk optimization
(B) Maximising tax liabilities
(C) Ensuring portfolio inflexibility
(D) Concentrating investments in a single asset class

Ans :

(A) Capital appreciation and risk optimization
Portfolio management has several core objectives aimed at enhancing investor wealth. These include achieving capital appreciation (growth in the portfolio's value), maximizing returns on investment, and optimizing risk to an acceptable level. Other goals are ensuring portfolio flexibility, allocating resources optimally, and protecting earnings from market risks, all tailored to the investor's profile.

Oct/Nov 2008

41. Which of the following investor profiles is most suitable for opting for portfolio management services?
(A) An expert investor who has ample time and resources to track their own investments daily
(B) An investor whose primary strategy is to invest in a single, well-known blue-chip stock
(C) An investor who intends to invest across different avenues but lacks sufficient knowledge or time

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total value

Ans :

(D) A recurring management fee, typically calculated as a percentage of the portfolio's total value

Investment managers are typically compensated through a management fee. This fee is calculated as a percentage of the total assets under management (AUM) for a client. The fees often range from 0.35% to 2% annually and are frequently structured on a sliding scale, where the percentage fee decreases as the client's asset base increases.

Oct/Nov 2013

15. What is the typical average management fee for investment management services?
(A) 1%
(B) 0.25%
(C) 5%
(D) 3%

Ans :

(A) 1%

While management fees can range from 0.35% to 2% annually, the average management fee in the industry is around 1%. This fee is charged on the total value of the portfolio being managed. The exact percentage can vary based on the size of the portfolio, the complexity of the strategy, and the manager's reputation.

May/June 2010

16. What is the first step in the investment management process?
(A) Analysis of securities
(B) Deciding investment goals
(C) Construction of portfolio
(D) Evaluating performance of portfolio

Ans :

(B) Deciding investment goals

The investment management process begins with the crucial first step of deciding and defining the investor's goals. These goals are set while keeping the basic objectives of maximizing return and minimizing risk in mind. Secondary goals like regular income, capital gain, tax savings, liquidity, and safety of principal are also established at this stage.

Oct/Nov 2005

17. Which analytical methods are used in the 'Analysis of Securities' step to find the intrinsic value and future price trends of securities?
(A) Historical analysis and statistical analysis
(B) Fundamental and technical analysis
(C) SWOT analysis and PESTLE analysis
(D) Qualitative and quantitative analysis

Ans :

(B) Fundamental and technical analysis

The second step, analysis of securities, employs two primary methods. Fundamental analysis is used to determine the intrinsic value of a security by examining economic and financial factors. Technical analysis is used to forecast future price movements by analyzing past market data, primarily price and volume. This helps in identifying under-priced or over-priced securities.

May/June 2023

18. Why is a well-diversified portfolio considered less risky than holding a single security?
(A) It allocates funds among various securities from different companies and industries
(B) It concentrates all available funds into a single high-performing industry for maximum gain
(C) It focuses investment solely on government-issued bonds that are considered risk-free
(D) It provides a guarantee of a fixed rate of return regardless of market conditions

Ans :

(A) It allocates funds among various securities from different companies and industries

A well-diversified portfolio is constructed by allocating funds across a variety of securities from different companies and industries. This strategy is less risky than holding a single security because the poor performance of one asset can be offset by the good performance of another. Diversification helps to reduce unsystematic risk and smooth out overall portfolio returns.

Oct/Nov 2011

19. What is another term for the step 'Evaluating performance of Portfolio'?
(A) Portfolio construction
(B) Portfolio revision
(C) Portfolio appraisal
(D) Portfolio allocation

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geographical regions, an investor can capture the returns of different segments over time while reducing the overall portfolio's volatility at any given moment.

Oct/Nov 2014

46. What is the primary objective of 'Rebalancing' a portfolio?
(A) To chase the performance of the best-performing assets
(B) To sell all assets and hold cash during a market downturn
(C) To increase the portfolio's exposure to high-risk securities
(D) To return a portfolio to its original target asset allocation

Ans :

(D) To return a portfolio to its original target asset allocation
Rebalancing is a periodic discipline, usually done annually, to restore a portfolio to its intended asset mix. Market movements can cause the portfolio's allocation to drift from its original target. For example, a stock market rally might increase the equity portion beyond the investor's risk tolerance. Rebalancing corrects this by selling over-performing assets and buying under-performing ones.

May/June 2019

47. A portfolio starts with a 70% equity and 30% fixed-income allocation. After a year of a strong stock market rally, the allocation shifts to 80% equity and 20% fixed-income. The investor's original risk tolerance has not changed. What action should a portfolio manager recommend?
(A) Sell some equity and buy more fixed-income to return to a 70/30 allocation.
(B) Maintain the 80/20 allocation to maximize future gains from the rally.
(C) Sell all fixed-income and move to a 100% equity allocation.
(D) Sell all equity and move to a 100% fixed-income allocation to lock in profits.

Ans :

(A) Sell some equity and buy more fixed-income to return to a 70/30 allocation.
The portfolio now has more risk than the investor can tolerate due to the shift in allocation. The correct action is rebalancing. This involves selling a portion of the outperforming asset class (equity) and using the proceeds to buy the underperforming one (fixed-income) to bring the portfolio back to its original 70/30 target mix, realigning it with the investor's risk profile.

Oct/Nov 2006

48. Client A hires Bank B, stating, "Take my money and invest in portfolios where you think our money will grow better and will make us wealthier." Bank B proceeds to invest the client's funds to get better returns. This scenario is an example of:
(A) Investment Banking
(B) Portfolio Management
(C) Underwriting
(D) Mergers and Acquisitions

Ans :

(B) Portfolio Management
This scenario perfectly describes portfolio management (or asset management). The client already has the money and is entrusting it to a professional (Bank B) to manage and invest on their behalf. The objective is to maximize the client's wealth by actively managing their investment portfolio, which is the core function of a portfolio manager.

May/June 2021

49. Client A wants to expand their business but lacks the necessary funds. They hire a financial professional to search for investors, explore capital raising opportunities in the equity market, or run an IPO. This scenario is an example of:
(A) Asset Management
(B) Investment Banking
(C) Portfolio Management
(D) Passive Investing

Ans :

(B) Investment Banking
In this case, the client does not have the money; they need to raise it. The professional's role is to facilitate this capital raising. This is a classic investment banking function, which involves connecting clients who need capital with sources of funding, whether through private investors, debt issuance, or public offerings like an IPO.

Oct/Nov 2010

50. In finance parlance, asset management is also known as the 'buy-side', while investment banking is termed the:

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profits. This clause aligns the interests of the manager with the investor, as the manager is incentivized to generate returns above this minimum threshold.

May/June 2011

75. Based on these SEBI regulations, what is the maximum exit load a PMS can charge a client who redeems their investment after 2.5 years?
(A) 3 percent
(B) 2 percent
(C) No exit load
(D) 1 percent

Ans :

(D) 1 percent
The regulation specifies a tiered exit load structure. It is 3% in the first year, 2% in the second year, and 1% in the third year. Since an exit after 2.5 years falls within the third year of investment, the applicable maximum exit load would be 1 percent. After three full years, no exit load can be charged.

Oct/Nov 2020

76. According to the SEBI regulations effective October 1, 2020, what is the maximum permissible limit for operational fees (excluding brokerage) for PMS?
(A) 1.0 percent per annum of average AUM
(B) 0.5 percent per annum of average AUM
(C) 2.0 percent per annum of average AUM
(D) There is no limit on operational fees.

Ans :

(B) 0.5 percent per annum of average AUM
The SEBI regulations introduced several changes to make PMS more investor-friendly and transparent. One of the key changes was the capping of fees. The rules state that operational fees, which do not include brokerage costs, cannot be more than 0.5 percent per annum of the client's average Assets Under Management (AUM).

May/June 2022

77. As per the revised SEBI guidelines, what is the minimum specified net worth that a portfolio manager must have, certified by a Chartered Accountant (CA)?
(A) ₹1 crore
(B) ₹10 crore
(C) ₹5 crore
(D) ₹100 crore

Ans :

(C) ₹5 crore
To ensure the financial stability and seriousness of entities offering Portfolio Management Services, SEBI has mandated a minimum net worth requirement. The regulations specify that a portfolio manager must have a minimum net worth of ₹5 crore, and this must be certified by a Chartered Accountant. This rule enhances the credibility of PMS providers.

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Oct/Nov 2023

78. What change did SEBI mandate regarding performance reporting for PMS?
(A) Performance reports are optional and are provided to the client only upon specific request
(B) A quarterly report is mandatory, with performance reported gross of all fees and expenses
(C) An annual report is sufficient, as long as it shows the portfolio's performance before tax
(D) A monthly report is mandatory, with performance shown net of all expenses and after-tax

Ans :

(D) A monthly report is mandatory, with performance shown net of all expenses and after-tax
To improve transparency and provide investors with a clearer picture of their actual returns, SEBI made monthly reporting mandatory for PMS. Crucially, this performance must be reported 'net of expenses and after-tax'. This ensures that the returns shown to the investor reflect the real earnings after all costs and taxes have been accounted for.

May/June 2016

79. To enhance transparency, what information are PMS operators now required to disclose to investors every quarter?
(A) The complete details of commissions paid to distributors for sourcing the client's account
(B) The exact salary and bonus compensation of the portfolio manager and research team
(C) The PMS firm's complete profit and loss statement for the corresponding quarter
(D) A list of all personal investments held by the members of the fund management team

(B) PMS often includes a profit share above a hurdle rate, unlike MFs which have an expense ratio
(C) Both services charge an identical, fixed fee structure that is regulated by the government
(D) PMS has no management fees, while MFs charge both entry and exit loads on investments

Ans :

(B) PMS often includes a profit share above a hurdle rate, unlike MFs which have an expense ratio
Mutual funds charge fees as an expense ratio, which is a percentage of assets, along with potential entry/exit loads. Portfolio Management Services (PMS) typically have a more complex structure, including an annual maintenance fee and often a performance-based fee, where the manager earns a share of the profit generated above a pre-agreed minimum rate of return (hurdle rate).

May/June 2014

55. How does asset ownership differ between an investor in a PMS and an investor in a Mutual Fund?
(A) In both PMS and MFs, the investor is issued units that represent a share of a pooled fund
(B) In PMS, the investor owns units of a portfolio, while in MFs, they own direct company shares
(C) Legal ownership of the assets is held by the portfolio manager in both PMS and MF structures
(D) In PMS, the investor directly owns the shares in their name; in MFs, they own units of the fund

Ans :

(D) In PMS, the investor directly owns the shares in their name; in MFs, they own units of the fund
A fundamental difference lies in ownership. Under PMS, the securities (stocks, bonds, etc.) are held in the investor's own Demat account, meaning the investor retains direct ownership of the individual assets. In a mutual fund, the investor does not own the underlying securities directly but instead owns units that represent a proportional share of the fund's total portfolio.

Oct/Nov 2007

56. What is the minimum capital investment required to avail Portfolio Management Services (PMS) in India, as per SEBI guidelines?
(A) ₹50 Lakh
(B) ₹10 Lakh
(C) ₹25 Lakh
(D) ₹1 Crore

Ans :

(A) ₹50 Lakh
According to the guidelines set by the Securities and Exchange Board of India (SEBI), there is a minimum investment threshold for Portfolio Management Services. To avail PMS, an investor must make a capital investment of over ₹50 Lakh. This regulation positions PMS as a premium service targeted towards High Net-worth Individuals (HNIs), unlike mutual funds which entertain any amount of capital.

NODIA

May/June 2025

57. A portfolio management strategy that aims to beat the performance of a market index like the Nifty by actively buying and selling securities is known as:
(A) Passive Portfolio Management
(B) Discretionary Portfolio Management
(C) Active Portfolio Management
(D) Non-discretionary Portfolio Management

Ans :

(C) Active Portfolio Management
Active Portfolio Management involves a hands-on approach where the manager's goal is to outperform a specific benchmark index. This is achieved by taking different positions than the index and actively trading securities based on research and market forecasts. This strategy seeks to generate excess returns (alpha) but inherently undertakes a higher level of risk and transaction costs.

Oct/Nov 2019

58. A PMS strategy that aims to mimic the performance of an index by investing in the same securities with similar weights is called:
(A) Passive Portfolio Management
(B) Active Portfolio Management
(C) Discretionary Portfolio Management
(D) Aggressive Portfolio Management

Ans :

(A) Sell-side
(B) Hold-side
(C) Debt-side
(D) Equity-side

Ans :

(A) Sell-side
The financial industry often uses the terms 'buy-side' and 'sell-side' to differentiate these functions. The buy-side refers to firms that buy securities for investment purposes, such as asset management firms and portfolio managers. The sell-side refers to firms that create, promote, and sell securities and services to the buy-side, which is the primary role of investment banking.

May/June 2005

51. What is an Investment Policy Statement (IPS) drafted by a PMS provider?
(A) A marketing document that guarantees a specific minimum rate of annual return for the client
(B) A promotional brochure that details the firm's historical performance across all its strategies
(C) A foundational statement to understand and outline the client's financial position, needs, and risk profile
(D) A legal agreement that permits the portfolio manager to take on unlimited and unspecified risks

Ans :

(C) A foundational statement to understand and outline the client's financial position, needs, and risk profile
An Investment Policy Statement (IPS) is a crucial document in Portfolio Management Services (PMS). It is created to clearly outline the client's financial situation, investment objectives, return requirements, and willingness to assume risk. It also details constraints like time horizon and liquidity needs, serving as a guiding document for managing the portfolio and ensuring alignment with the client's profile.

Oct/Nov 2022

52. Which of the following attributes most significantly distinguishes Portfolio Management Services (PMS) from Mutual Funds (MFs)?
(A) MFs offer a higher degree of customization than PMS.
(B) Both offer identical levels of customization.
(C) Neither PMS nor MFs offer any form of customization.
(D) PMS offers a higher degree of customization tailored to the investor.

Ans :

(D) PMS offers a higher degree of customization tailored to the investor.
The primary differentiator between PMS and MFs is the level of customization. PMS provides a highly personalized service, with portfolios tailored specifically to an individual investor's goals and risk profile. Mutual funds, in contrast, pool money from many investors and offer customization only to the extent of the fund's specific category and investment objective.

May/June 2018

53. In terms of engagement and accountability, how does PMS differ from MFs?
(A) MFs offer personalized dialogue with the fund manager, while PMS communication is limited
(B) Both services have identical levels of direct investor engagement and manager accountability
(C) PMS is personalized with direct manager accountability, while MFs offer low individual engagement
(D) In MFs, the manager is directly accountable to individuals, while in PMS, accountability is diffused

Ans :

(C) PMS is personalized with direct manager accountability, while MFs offer low individual engagement
PMS promotes a personalized, direct dialogue between the investor and the portfolio manager, who is directly accountable for performance. This allows investors to communicate changes in their risk profile. Mutual funds offer very low engagement, with communication typically limited to periodic fact sheets and reports, and the fund manager is not directly accountable to individual investors.

Oct/Nov 2016

54. What is the key difference in the fee structures between PMS and MFs?
(A) MFs typically charge a profit-sharing fee, while PMS providers only charge an expense ratio

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(A) Rebalancing the composition of the portfolio
(B) Implementing portfolio
(C) Evaluating and revising the portfolio
(D) Formulating suitable portfolio strategies

Ans :

(A) Rebalancing the composition of the portfolio
The table outlines an eight-step process. The final step, Step 8, is 'Rebalancing the composition of the portfolio'. The description clarifies that the portfolio's composition is rebalanced frequently to maximise earnings. This is a recurring activity that ensures the portfolio remains aligned with its objectives over time, distinct from the periodic evaluation in Step 7.

Oct/Nov 2015

64. One of the main advantages of Portfolio Management Services (PMS) is 'Professional Management'. What is the objective of this professional management?
(A) To generate significant short-term speculative gains through high-frequency trading strategies
(B) To deliver consistent long-term performance while carefully controlling the portfolio's risk exposure
(C) To completely eliminate all forms of market and credit risk from the client's investment portfolio
(D) To focus investment solely on high-risk, high-return assets to maximize potential capital growth

Ans :

(B) To deliver consistent long-term performance while carefully controlling the portfolio's risk exposure
The advantage of 'Professional Management' in PMS lies in having experts manage the portfolio. Their primary objective is not to chase speculative profits but to achieve consistent, sustainable performance over the long term. A crucial part of this is simultaneously managing and controlling the portfolio's risk to align with the client's goals and risk tolerance.

May/June 2013

65. The advantage of 'Hassle Free Operation' in PMS means that the provider takes care of:
(A) Personally guaranteeing that the client's portfolio will achieve a positive annual profit
(B) Handling all the administrative tasks and paperwork related to the client's investment portfolio
(C) Filing and paying the client's annual income tax obligations on any capital gains realized
(D) Making all investment decisions without any form of input or communication with the client

Ans :

(B) Handling all the administrative tasks and paperwork related to the client's investment portfolio
'Hassle Free Operation' refers to the convenience offered by PMS. The service provider handles all the administrative burdens associated with managing an investment portfolio. This includes tasks like record-keeping, tracking corporate actions, and providing periodic reporting on the portfolio's status and performance, thereby freeing up the client's time and effort.

Oct/Nov 2021

66. How does the 'Flexibility' advantage of PMS manifest?
(A) The manager can hold substantial cash positions and create concentrated, high-conviction portfolios
(B) The manager is restricted by regulation to holding only fully invested, diversified portfolios
(C) The manager can only invest in a pre-approved, static list of ten specific large-cap stocks
(D) The manager has the flexibility to unilaterally change the client's stated risk profile and objectives

Ans :

(A) The manager can hold substantial cash positions and create concentrated, high-conviction portfolios
Flexibility in PMS gives the portfolio manager significant latitude in managing the portfolio. This includes the ability to hold a large portion of the portfolio, even up to 100%, in cash if market conditions are unfavorable. It also allows the manager to create concentrated positions by investing disproportionately in specific securities they believe offer compelling opportunities.

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(A) Passive Portfolio Management
Passive Portfolio Management, also known as indexing or index investing, does not try to beat the market. Instead, it aims to replicate the performance of a specific market index. This is done by holding the same securities as the index in similar proportions. This strategy involves minimal portfolio churning, resulting in lower transaction costs and low variance in returns.

May/June 2009

59. In which type of PMS is the portfolio manager given complete control of the portfolio and is free to adopt any strategy suitable to the Investment Policy Statement (IPS)?
(A) Non-discretionary Portfolio Management
(B) Passive Portfolio Management
(C) Advisory Portfolio Management
(D) Discretionary Portfolio Management

Ans :

(D) Discretionary Portfolio Management
In Discretionary Portfolio Management, the investor delegates all investment decisions to the portfolio manager. The manager has full authority to buy and sell securities and implement strategies as they see fit, as long as they adhere to the guidelines set in the IPS. This type is best for clients with limited time or investment knowledge.

Oct/Nov 2011

60. An investor signs up for a PMS where the manager can only suggest investment ideas. The final decision on which recommendation to choose and the timing of the investment rests entirely with the investor. What type of PMS is this?
(A) Active Portfolio Management
(B) Non-discretionary Portfolio Management
(C) Discretionary Portfolio Management
(D) Passive Portfolio Management

Ans :

(B) Non-discretionary Portfolio Management
This scenario describes Non-discretionary Portfolio Management. In this arrangement, the portfolio manager acts purely in an advisory capacity. They provide recommendations and investment ideas, but the ultimate authority and responsibility for making the final investment call—including what to buy/sell and when—remains with the investor. The manager does not execute trades without the investor's specific approval.

May/June 2010

61. According to the table, what is the immediate step that follows 'Estimating the capital market' in the portfolio management process?
(A) Identification of objectives
(B) Implementing portfolio
(C) Decisions about asset allocation
(D) Selecting of profitable investment and securities

Ans :

(C) Decisions about asset allocation
The provided table clearly outlines the sequential steps of the portfolio management process. Step 2 is 'Estimating the capital market'. The very next step, listed as Step 3, is 'Decisions about asset allocation'. This logical flow indicates that after analyzing market expectations for risk and return, the manager proceeds to decide the appropriate mix of assets.

Oct/Nov 2024

62. According to the portfolio management process, what happens in 'Step 5: Selecting of profitable investment and securities'?
(A) A portfolio is evaluated and revised regularly.
(B) The planned portfolio is put to action by investing in profitable avenues.
(C) Expected returns and associated risks are analysed.
(D) The profitability of assets is analysed by factoring in their fundamentals, credibility, and liquidity.

Ans :

(D) The profitability of assets is analysed by factoring in their fundamentals, credibility, and liquidity.
Step 5 focuses on the micro-level task of choosing specific securities after the broader strategy and asset allocation have been determined. The description for this step specifies that the profitability of individual assets is analyzed. This analysis is based on crucial factors such as the asset's fundamentals (e.g., company earnings), credibility, and liquidity, among others.

May/June 2020

63. What is the final step in the eight-step portfolio management process described?

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May/June 2008

71. An investor has ₹10 lakhs in a PMS account. The asset management fee is quoted as being between 2-2.5%. Additionally, a broker charges 0.25% per transaction, and the portfolio is turned over 4 times a year. What is a significant cost consideration for this investor?

(A) The asset management fee is the only significant cost to consider
(B) Brokerage costs are generally too low to impact overall returns
(C) The presence of a hurdle rate effectively eliminates most other costs
(D) The combined effect of management and brokerage fees is significant

Ans :

(D) The combined effect of management and brokerage fees is significant
The case highlights multiple cost layers. The asset management fee would be ₹20,000 to ₹25,000. On top of this, the brokerage cost is significant. A turnover of 4 times means 400% of the portfolio value is transacted. At 0.25% brokerage, this amounts to 1% of the portfolio (0.25% 4), or another ₹10,000. The entire package becomes costly.

Oct/Nov 2013

72. What does the 'No Performance Guarantee' disadvantage of PMS imply?

(A) Superior performance is not guaranteed, and the PMS house does not share in the client's losses
(B) The PMS manager is generally not skilled enough to generate positive returns in any market
(C) The investor is guaranteed to lose a significant portion of their money in financial markets
(D) The PMS is only a suitable investment for individuals who desire guaranteed, fixed returns

Ans :

(A) Superior performance is not guaranteed, and the PMS house does not share in the client's losses
A key aspect of PMS is that while the manager may share in the profits (via performance fees), they are not a party to the losses. Investing in financial markets inherently involves risk, and there is no guarantee of superior performance. This 'No Performance Guarantee' is a well-understood phenomenon that investors must accept when opting for PMS.

May/June 2015

73. When selecting a PMS, why is conducting 'due diligence of the portfolio manager' considered a crucial aspect?

(A) To accurately verify the portfolio manager's personal net worth and financial standing
(B) To gain leverage for negotiating a substantially lower annual management fee
(C) Because the portfolio's success is highly dependent on the individual manager's skill and ability
(D) To ensure the portfolio manager exclusively uses a passive, index-tracking investment strategy

Ans :

(C) Because the portfolio's success is highly dependent on the individual manager's skill and ability
The success of a PMS portfolio is directly tied to the skill of the person managing it. The manager's ability to analyze securities, construct a portfolio, and navigate market conditions determines the outcome. Therefore, conducting due diligence on the manager's educational background, experience, and expertise is crucial for assessing the competency they bring to the fund.

Oct/Nov 2012

74. In the context of PMS fee arrangements, what is the purpose of a 'hurdle rate' clause?

(A) It triggers profit sharing with the manager only if performance exceeds a minimum required rate
(B) It guarantees the manager a minimum fixed fee regardless of the portfolio's performance
(C) It sets the absolute maximum brokerage fee that can be charged on any single transaction
(D) It represents the minimum rate of return that is legally guaranteed to the investor each year

Ans :

(A) It triggers profit sharing with the manager only if performance exceeds a minimum required rate
A hurdle rate is a key feature of performance-based fee structures in PMS. It is the minimum rate of return that the portfolio must achieve before the manager is entitled to a share of the

NODIA

May/June 2024

67. The 'Transparency' advantage of PMS ensures that investors receive regular statements detailing which of the following?

(A) A simple statement showing only the current market value of the securities they own

(B) A brief market commentary from the Portfolio Manager without specific portfolio details

(C) A complete report of securities held, their cost basis, transaction history, and current value

(D) A single chart showing only the portfolio's performance in comparison to its benchmark index

Ans :

(C) A complete report of securities held, their cost basis, transaction history, and current value

Transparency is a key feature of PMS. Investors receive comprehensive communications and reports. These statements provide a complete picture of the investment, including which individual securities are held, the number of shares, their current value, the original cost basis, and details of all account activity like purchases, sales, and dividends, ensuring full visibility.

Oct/Nov 2008

68. An investor is a long-term employee of Company X and has acquired a large, concentrated stock position in it over the years, making them over-exposed. How can the 'Customised Advice' feature of PMS help this investor?

(A) By recommending an immediate and complete liquidation of all shares currently held in Company X

(B) By advising the purchase of additional stock in Company X to significantly lower the average holding cost

(C) By suggesting the investor resign from their position at Company X to remove any conflict of interest

(D) By structuring the portfolio to explicitly exclude any future investments in the stock of Company X

Ans :

(D) By structuring the portfolio to explicitly exclude any future investments in the stock of Company X

The 'Customised Advice' feature allows the portfolio to be tailored to the client's specific circumstances. In this case, the PMS can be structured to automatically exclude investments in Company X. This helps the investor diversify away from their concentrated position and reduce the specific risk associated with being over-exposed to a single company's stock.

May/June 2006

69. What is considered one of the biggest disadvantages of investing with a PMS house?

(A) The general lack of professional management and expertise within the PMS industry

(B) A fundamental lack of transparency regarding portfolio holdings and transaction costs

(C) The high minimum capital investment requirement, currently set at ₹50 lakh by SEBI

(D) The regulatory inability for PMS providers to invest client funds in equity markets

Ans :

(C) The high minimum capital investment requirement, currently set at ₹50 lakh by SEBI

A significant barrier to entry for many investors is the high minimum investment mandated by SEBI. The requirement of a minimum corpus of ₹50 lakh makes PMS a premium service that is difficult for investors from lower-income profiles to access. This high capital threshold is frequently cited as a major disadvantage of Portfolio Management Services.

Oct/Nov 2017

70. Asset management fees for PMS typically vary in which range?

(A) 0.1% to 0.5%

(B) 2% to 2.5%

(C) 1% to 1.5%

(D) 5% to 7%

Ans :

(B) 2% to 2.5%

A disadvantage of PMS is its cost structure. PMS providers charge asset management fees as a percentage of the investment amount. These fees are generally higher than mutual fund expense ratios and typically vary in the range of 2% to 2.5%. This is a key cost component that investors need to consider.

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Ans :

(A) The complete details of commissions paid to distributors for sourcing the client's account
In a move to bring PMS regulations in line with the mutual fund industry, SEBI mandated greater disclosure. It is now mandatory for PMS operators to disclose the details of commissions paid to distributors. This information must be shared with investors every quarter, making them aware of the commissions being earned by the intermediaries involved.

Oct/Nov 2009

80. SEBI has mandated that portfolio managers must utilize the services of certified distributors. What certifications are mentioned as being acceptable?
(A) A postgraduate university degree in finance, economics, or a related business field
(B) AMFI registration numbers or having passed the required NISM Services V-A examination
(C) An internal certification provided directly by the portfolio management firm itself
(D) Any general certification that is broadly related to the domestic stock market operations

Ans :

(B) AMFI registration numbers or having passed the required NISM Services V-A examination
To ensure that distributors advising on PMS products have a minimum level of knowledge and qualification, SEBI has mandated specific certifications. Portfolio managers can only use distributors who are either registered with the Association of Mutual Funds in India (AMFI) or have passed the National Institute of Securities Markets (NISM) Services V-A examination.

May/June 2023

81. Which of the following statements is INCORRECT regarding the elements of investment?
(A) Return is the prime objective and can be in the form of regular income or capital appreciation.
(B) Safety states that an investor must accept some loss in principal value on maturity.
(C) Risk signifies the variability in return, and higher risk is normally associated with higher expected returns.
(D) Liquidity means the investment can be sold quickly without incurring much transaction cost.

Ans :

(B) Safety states that an investor must accept some loss in principal value on maturity.
The statement regarding safety is incorrect. The principle of safety of investment states that an investor should get back their original principal on maturity with no loss in value and without hindrance. It is about capital preservation, not accepting a predetermined loss. The other three statements correctly describe return, risk, and liquidity.

Oct/Nov 2018

82. Identify the correct statement regarding investment management services.
(A) Investment management is also known as money management or portfolio management.
(B) Investment managers are compensated with a fixed, one-time fee.
(C) Clients of investment managers are exclusively large government bodies.
(D) Services are limited to only buying and selling securities.

Ans :

(A) Investment management is also known as money management or portfolio management.
This statement is correct. Investment management is a broad term and is often used interchangeably with money management, portfolio management, or wealth management. The other statements are incorrect: compensation is typically a percentage of AUM, clients include individuals and institutions, and services are comprehensive, including asset allocation, research, and financial planning.

May/June 2007

83. Which of the following is an INCORRECT statement about the divisions of an investment bank?
(A) The Front Office is the primary revenue-generating division and includes sales & trading.
(B) The Middle Office is a support function responsible for risk management and compliance.
(C) The Back Office is responsible for creating research and making buy/sell recommendations to clients.

NODIA

(D) The Back Office provides crucial operational and technological support to the front office.

Ans :

(C) The Back Office is responsible for creating research and making buy/sell recommendations to clients.
The back office's role is purely operational and administrative support, such as trade settlement and record-keeping. It does not engage in client-facing advisory roles. Making buy/sell recommendations is a function of the front office, specifically the research or sales departments. The other statements correctly describe the functions of the front, middle, and back offices.

Oct/Nov 2025

84. Consider the following statements regarding the difference between PMS and Mutual Funds:
1. PMS offers a higher degree of customization than MFs.
2. In PMS, the investor owns units, while in MFs, the investor owns direct shares.
3. The minimum investment for PMS is ₹50 Lakh, while MFs can be started with small amounts.

Which of the above statements is/are correct?
(A) 1 only
(B) 1 and 3 only
(C) 2 and 3 only
(D) 1, 2, and 3

Ans :

(B) 1 and 3 only
Statement 1 is correct as PMS is highly customized. Statement 3 is also correct regarding the minimum investment threshold. However, Statement 2 is incorrect; it has the ownership structure reversed. In PMS, the investor owns direct shares, and in MFs, the investor owns units representing a share in the fund's portfolio.

May/June 2012

85. Arrange the following steps of the investment management process in the correct chronological order:
1. Construction of portfolio
2. Revision of portfolio
3. Deciding investment goals
4. Analysis of Securities
5. Evaluating performance of Portfolio

(A) 3, 4, 1, 5, 2
(B) 3, 1, 4, 5, 2
(C) 4, 3, 1, 2, 5
(D) 1, 3, 4, 5, 2

Ans :

(A) 3, 4, 1, 5, 2
The logical sequence of the investment management process is as follows: first, deciding the investment goals (3); second, analyzing potential securities (4); third, constructing the portfolio based on the analysis and goals (1); fourth, evaluating the performance of the constructed portfolio (5); and finally, revising the portfolio based on the evaluation results (2).

Oct/Nov 2014

86. Match List-I (Type of Underwriting) with List-II (Description).

	List I		**List II**
P.	Firm Commitment	1.	Deal is cancelled if the entire issue is not sold.
Q.	Best Efforts	2.	Underwriter buys the entire issue, assuming full risk.
R.	All-or-None	3.	Underwriter sells as much as possible, returns the unsold

(A) P-2, Q-3, R-1
(B) P-1, Q-2, R-3
(C) P-3, Q-1, R-2
(D) P-2, Q-1, R-3

Ans :

(A) P-2, Q-3, R-1
'Firm Commitment' is when the underwriter buys the entire issue and assumes all risk (P-2). 'Best Efforts' is when the underwriter acts as an agent, selling what it can and returning the rest (Q-3). 'All-or-None' is a contingency where the deal is called off entirely if not fully subscribed (R-1).

May/June 2019

87. Match List-I (Portfolio Management Element) with List-II (Objective).

	List I		**List II**
P.	Asset Allocation	1.	Spreading risk across various securities within an asset class.

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Q.	Diversification	2.	Selling high-priced securities to buy low-priced ones periodically.
R.	Rebalancing	3.	Creating a long-term mix of assets like stocks, bonds, and cash.

(A) P-1, Q-3, R-2
(B) P-3, Q-1, R-2
(C) P-2, Q-1, R-3
(D) P-3, Q-2, R-1

Ans :

(B) P-3, Q-1, R-2
'Asset Allocation' is the strategic decision of creating a long-term mix of different asset classes (P-3). 'Diversification' is the tactical approach of spreading risk by investing in a variety of securities within or between asset classes (Q-1). 'Rebalancing' is the disciplined process of restoring the portfolio to its target allocation, often by selling winners and buying laggards (R-2).

Oct/Nov 2006

88. Assertion (A): A well-diversified portfolio is comparatively less risky than holding a single security.
Reason (R): Diversification allocates funds among different securities of different companies of different industries, which helps to offset the poor performance of some assets with the good performance of others.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is a fundamental principle of modern portfolio theory. Reason (R) correctly explains why this is true. By spreading investments across various non-correlated assets, the negative impact of any single asset's poor performance is mitigated by the performance of others, thus reducing the overall portfolio's volatility and risk.

May/June 2021

89. Assertion (A): In the case of investment banking, clients don't have the money and need the professional to raise capital for them.
Reason (R): Investment banking is also known as the 'buy-side' because it involves buying securities for clients.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(C) (A) is true but (R) is false.
Assertion (A) is true; investment banking's core function is to help clients (corporations, governments) who need capital to raise it. However, Reason (R) is false. Investment banking is known as the 'sell-side' because it creates and sells securities. The 'buy-side' refers to asset management or portfolio management, where professionals buy securities for their investment portfolios.

Oct/Nov 2010

90. Consider the following statements about the disadvantages of PMS:
1. The minimum capital investment is high, as mandated by SEBI.
2. PMS charges are typically lower than the expense ratios of mutual funds.
3. PMS providers offer a performance guarantee, sharing in both profits and losses.

Which of the above statements is/are correct?
(A) 1 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2 and 3

Ans :

(A) 1 only
Statement 1 is a correct disadvantage, referring to the ₹50 lakh minimum. Statement 2 is incorrect; PMS costs (management fees, brokerage) are generally higher than MF expense ratios. Statement 3 is incorrect; PMS has 'No Performance Guarantee' and managers are a party to profits, but not to the investor's losses.

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financial year. This is normally a period of up to 12 months that ends on the 31st of March every year. While exceptions for the first accounting period exist, the standard rule is to align with the April-to-March financial year structure.

May/June 2024

13. Which of the following is an exception to the general rule that the income of a previous year is taxed in the immediately following assessment year?

(A) Income earned by a salaried individual who is employed by a government entity.
(B) Income from a continuing business that has existed for more than ten years.
(C) Income of a person leaving India permanently or for a long, indefinite duration.
(D) Income from a house property that is rented out for the entire financial year.

Ans :

(C) Income of a person leaving India permanently or for a long, indefinite duration.
Generally, income is taxed in the assessment year following the previous year. However, Section 174 provides an exception for persons leaving India permanently or for a long duration. In such cases, to prevent income from escaping assessment, the income is subject to tax in the same previous year in which it is earned, making the PY and AY the same.

Oct/Nov 2021

14. Identify the incorrect statement regarding the exceptions to the standard taxation timeline.

(A) Income from a non-resident's shipping business is taxed in the same year it is earned, as per Section 172.
(B) AOPs formed for a brief period are taxed in the same year of dissolution, as per Section 174A.
(C) Income from a business that has been discontinued is assessed in the year of its discontinuation under Section 176.
(D) Income of a person transferring property to avoid tax is always assessed in the same year under Section 175.

Ans :

(D) Income of a person transferring property to avoid tax is always assessed in the same year under Section 175.
The statement is incorrect. Under Section 175, if it is suspected that a person might transfer their property to avoid tax liability, the Assessing Officer can assess their income in the same previous year. This is an exception to the general rule, designed to tax the income before the assessee can dispose of assets and evade payment.

May/June 2013

15. The taxability of an individual in India is primarily determined by which of the following factors?

(A) The individual's residential status for the year as determined by the rules in the Income Tax Act.
(B) The individual's citizenship status as recorded by their country of national origin.
(C) The country of origin as indicated on the individual's passport or official travel documents.
(D) The total number of active bank accounts held by the individual within the Indian financial system.

Ans :

(A) The individual's residential status for the year as determined by the rules in the Income Tax Act. An individual's tax liability in India is determined by their residential status for a particular financial year, not by their citizenship. An Indian citizen can be a non-resident for tax purposes, and a foreign citizen can be a resident. The Income Tax Act lays down specific criteria based on the duration of stay in India to determine this status.

Oct/Nov 2015

16. To qualify as a 'Resident' of India for income tax purposes, an individual must satisfy which one of the following basic conditions?

(A) Stay in India for a minimum of 90 days in the relevant financial year.
(B) Stay in India for 182 days or more in the relevant financial year.
(C) Be an Indian citizen, regardless of the number of days stayed in India.
(D) Stay in India for 365 days in the four preceding years, with no minimum stay in the relevant year.

Ans :

(B) Stay in India for 182 days or more in the relevant financial year.

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(B) As a client's total assets increase, the applicable fee percentage also tends to increase
(C) The fee percentage is a fixed rate that does not change regardless of the client's asset size
(D) The fee structure is based on transaction volume rather than the total size of the client's assets

Ans :

(A) As a client's total assets increase, the negotiable fee percentage typically decreases
The source text explicitly states that "fees are typically on a sliding scale—the more assets a client has, the lower the fee they can negotiate." This indicates an inverse relationship between the asset size and the fee percentage. Wealthier clients with larger portfolios have more bargaining power to secure a lower percentage-based fee.

Oct/Nov 2007

96. What does this text identify as the most critical factor in the performance of a PMS portfolio?
(A) The track record of the market index
(B) The competency and expertise of the portfolio manager
(C) The fee arrangement of the PMS
(D) The level of customer support provided

Ans :

(B) The competency and expertise of the portfolio manager
The text directly links the portfolio's performance to the manager's skill, stating it is "solely dependent on the manager's ability to outperform the market." It further emphasizes that the manager's background and experience are indicators of their competency and expertise, making the due diligence of the manager a "crucial aspect" of the selection process.

May/June 2025

97. Which of the following services is offered by a full-service investment bank but is NOT a primary function of the Investment Banking Division (IBD)?
(A) Underwriting
(B) Asset Management
(C) Mergers & Acquisitions (M&A) advisory
(D) Capital raising

Ans :

(B) Asset Management
The Investment Banking Division (IBD) of a bank specializes in underwriting and M&A advisory services. A full-service investment bank, however, offers a much wider range of services. These additional services include sales & trading, equity research, and asset management, which involves managing investments for a wide range of investors, a function distinct from the IBD's role.

Oct/Nov 2019

98. Which of the following is NOT a feature to look for in a Portfolio Management Service (PMS)?
(A) A legal guarantee of superior investment performance and the complete elimination of risk
(B) A consistent track record of performance when compared against a relevant market index
(C) Thorough due diligence on the portfolio manager's professional background and experience
(D) A transparent and understandable fee arrangement, including a clear hurdle rate clause

Ans :

(A) A legal guarantee of superior investment performance and the complete elimination of risk
While track record, manager's competence, and a clear fee structure are all crucial features to evaluate, a guarantee of performance is not. It is a well-understood phenomenon that investing in financial markets involves risk and there can be no guarantee of superior performance. A PMS provider promising guaranteed returns should be viewed with skepticism.

May/June 2009

99. According to the revised SEBI norms, how must client onboarding for PMS be conducted?
(A) Exclusively through approved intermediaries and third-party distributors
(B) Physically at designated SEBI regional offices to ensure regulatory oversight
(C) Directly by the portfolio manager, without involving intermediaries in the process
(D) Through a competitive bidding process involving multiple certified distributors

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they stay in India for an aggregate period of 182 days or more and their total income, excluding foreign sources, exceeds ₹15 Lakh.

May/June 2010

21. How is the tax liability of a Non-Resident (NR) and a Resident but Not Ordinarily Resident (RNOR) determined in India?

(A) They are taxed on their global income, including all income earned both within and outside India.

(B) Their tax liability is restricted to income that is earned or arises within India.

(C) Their tax liability is restricted to income that is earned or arises within India.

(D) They are taxed only on income earned abroad, while any income earned in India is fully exempt.

Ans :

(C) Their tax liability is restricted to income that is earned or arises within India.

For both Non-Residents (NR) and Residents but Not Ordinarily Resident (RNOR), the tax liability in India is limited. They are only required to pay tax on the income that is earned or arises in India. Their income earned from foreign sources is not subject to Indian income tax, unlike a Resident and Ordinarily Resident (ROR).

Oct/Nov 2011

22. What is a Double Taxation Avoidance Agreement (DTAA) used for?

(A) To provide a mechanism for an individual to pay tax in two countries on the same stream of income.

(B) To provide relief from paying tax twice on the same income that is taxable in India and also abroad.

(C) To double the applicable tax rate for individuals who are earning income from multiple foreign countries.

(D) To ensure that any income earned from a foreign source is always taxed at a higher rate in India.

Ans :

(B) To provide relief from paying tax twice on the same income that is taxable in India and also abroad.

A Double Taxation Avoidance Agreement (DTAA) is a treaty between two countries to prevent the same income from being taxed twice. An individual who is a resident of one country and earns income in another can use the provisions of the DTAA to claim relief from double taxation, ensuring they do not pay tax in both jurisdictions on the same income.

NODIA

May/June 2009

23. As per Section 2(7) of the Income Tax Act, 1961, who is defined as an 'assessee'?

(A) Any person who receives income during a financial year, regardless of their tax liability.

(B) Only an individual citizen of India who is required to file an annual income tax return.

(C) A government authority or department responsible for the collection and administration of taxes.

(D) A person by whom any tax or other sum of money is payable under the Act.

Ans :

(D) A person by whom any tax or other sum of money is payable under the Act.

The term 'assessee' under Section 2(7) refers to any person by whom any tax or any other sum of money is payable under the Income Tax Act. It also includes persons against whom proceedings have been initiated, a person deemed to be an assessee, or an assessee in default under any provision of the Act.

Oct/Nov 2019

24. Which of the following is NOT included in the definition of a 'person' under Section 2(31) of the Income Tax Act, 1961?

(A) A minor child

(B) An Individual

(C) A HUF (Hindu Undivided Family)

(D) An association of persons (AOP)

Ans :

(A) A minor child

Section 2(31) provides an inclusive definition of a 'person' for tax purposes. This includes an Individual, a Hindu Undivided Family (HUF), a Company, a Firm, an AOP or BOI, a local authority, and every artificial juridical person. A minor child is not a separate category; their income is typically clubbed with that of their parents and assessed in their hands.

May/June 2025

25. What is the purpose of a Permanent Account Number (PAN)?

CHAPTER 25
Tax Planning

May/June 2016

1. What is the primary function of taxation as described in the context of a government's role?
(A) To collect funds designated exclusively for subsidizing corporate entities and their growth.
(B) To levy taxes on citizens and business entities to raise revenue for public services.
(C) To generate revenue solely from individual citizens while exempting all business operations.
(D) To finance policy reforms specifically aimed at international trade and commerce.

Ans :

(B) To levy taxes on citizens and business entities to raise revenue for public services.
Taxation is the fundamental method by which a government or taxing authority imposes a levy on its citizens and business entities. This process is essential for generating revenue to fund public services and government operations. The scope of taxation is broad, covering everything from individual income to goods and services, applying to various levels of the economy.

Oct/Nov 2023

2. The tax structure in India is broadly classified into which two main categories?
(A) Direct Tax and Indirect Tax
(B) Central Tax and State Tax
(C) Corporate Tax and Personal Tax
(D) Goods Tax and Services Tax

Ans :

(A) Direct Tax and Indirect Tax
The Indian tax framework is bifurcated into two primary classifications: Direct Tax and Indirect Tax. Direct taxes are levied on the income and profits of a person or entity and paid directly by them. In contrast, indirect taxes are levied on goods and services and can be passed on from one individual or entity to another.

May/June 2022

3. Which of the following is a key characteristic of a Direct Tax?
(A) It is levied primarily on the consumption of goods and services, not directly on income or profit.
(B) The tax liability is designed to be easily shifted from the initial payer to the final consumer.
(C) It is imposed directly on a taxpayer, and the burden cannot be shifted to another person.
(D) It primarily consists of consumption-based taxes like service tax and value-added tax (VAT).

Ans :

(C) It is imposed directly on a taxpayer, and the burden cannot be shifted to another person.
A direct tax is defined as a tax imposed directly on the taxpayer, who is then responsible for paying it to the government. A defining feature of direct tax is that the burden cannot be passed on or assigned to another person. The person or entity earning the income or profit is the one who bears the tax liability.

Oct/Nov 2020

4. According to the tax structure in India, which of the following are examples of direct taxes?
(A) Goods and Services Tax (GST) and Customs Duty
(B) Service Tax and Central Excise Duty
(C) Value Added Tax (VAT) and Sales Tax
(D) Income Tax and Corporate Tax

Ans :

(D) Income Tax and Corporate Tax
Direct taxes are levied on the income or profits of individuals and corporations. The two primary examples of direct taxes imposed on an Indian taxpayer are Income Tax, which is applicable on the income earned by an individual, and Corporate Tax, which is applicable on the profits earned by companies from their business activities.

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May/June 2011

5. What major tax reform was implemented from 01 July 2017, which replaced multiple forms of indirect taxes in India?

(A) The introduction of the comprehensive Direct Tax Code (DTC) to replace the Income Tax Act.

(B) The establishment of a unified Central Excise Duty across all manufactured goods.

(C) The implementation of the Goods and Services Tax (GST) to unify indirect taxation.

(D) The nationwide replacement of Sales Tax with a uniform Value Added Tax (VAT) system.

Ans :

(C) The implementation of the Goods and Services Tax (GST) to unify indirect taxation.

The Goods and Services Tax (GST) regime was implemented on July 1, 2017. This was a significant policy reform that subsumed and replaced numerous earlier indirect taxes imposed by state and central governments, such as service tax, sales tax, VAT, and central excise duty, thereby unifying the indirect tax structure for goods and services.

Oct/Nov 2012

6. In the context of Indian income tax, what does the term 'Financial Year' signify?

(A) The specific year in which tax returns are filed and the final tax liability is paid.

(B) The 12-month period, from April 1st to March 31st, in which income is earned.

(C) The standard calendar period from 1st January to 31st December used for accounting.

(D) The year immediately following the period of income assessment and tax calculation.

Ans :

(B) The 12-month period, from April 1st to March 31st, in which income is earned.

In simple terms, the Financial Year (FY) is the period during which income is earned. It is the year that is previous to the assessment year. For income tax purposes in India, the financial year runs from April 1st of a calendar year to March 31st of the next calendar year. An assessee plans and calculates taxes for this period.

NODIA

May/June 2015

7. For the income earned in the Financial Year (FY) 2021-22, which year serves as the Assessment Year (AY)?

(A) 2020-21

(B) 2021-22

(C) 2023-24

(D) 2022-23

Ans :

(D) 2022-23

The Assessment Year (AY) is the year immediately following the Financial Year (FY) in which the income earned during the FY is assessed and taxed. Therefore, for income earned during the Financial Year 2021-22 (from 1st April 2021 to 31st March 2022), the corresponding Assessment Year is 2022-23 (from 1st April 2022 to 31st March 2023).

Oct/Nov 2013

8. Which of the following statements correctly describes the 'Assessment Year'?

(A) It is the year following the financial year, used for assessing and taxing the prior year's income.

(B) It is the year in which income is generated and is functionally synonymous with the Previous Year.

(C) It is a 12-month period designated to start from 1st January and end on 31st December.

(D) It is the year when advance tax installments are paid, which always precedes the financial year.

Ans :

(A) It is the year following the financial year, used for assessing and taxing the prior year's income.

The Assessment Year (AY) is the period that comes right after the financial year. It is the period, from April 1 to March 31, during which the income earned in the preceding financial year is assessed, taxed, and the corresponding income tax returns are filed. The current financial year is the assessment year for the previous financial year.

May/June 2008

9. Based on the provided text: "The financial year is when salaried professionals, businessman and senior citizens earn their money. While AY is the time when the income that was earned in the

financial year gets evaluated." Which conclusion can be drawn from this statement?

(A) The terms Financial Year and Assessment Year are used to describe the same 12-month period.

(B) The processes of earning income and evaluating it for tax happen concurrently within the Assessment Year.

(C) Earning income occurs in a period that precedes the period when that income is evaluated for tax.

(D) Salaried professionals have their income evaluated in the FY, whereas businessmen are evaluated in the AY.

Ans :

(C) Earning income occurs in a period that precedes the period when that income is evaluated for tax.

The source text clearly distinguishes the two periods by their function. The Financial Year is designated as the period for "earning" money, whereas the Assessment Year is the time for "evaluating" the income that was previously earned. This establishes a clear chronological and functional sequence where earning happens first, followed by evaluation in the subsequent year.

Oct/Nov 2017

10. For the purpose of income tax returns, how are the terms 'financial year' and 'previous year' generally treated?

(A) They are used interchangeably, both referring to the year in which the income is earned.

(B) The financial year is a fixed 12-month period, while the previous year can be longer or shorter.

(C) The previous year refers to the assessment period, while the financial year is for earning income.

(D) They are distinct terms, where the previous year denotes the period before the financial year begins.

Ans :

(A) They are used interchangeably, both referring to the year in which the income is earned.

For the purposes of income tax and filing returns, the terms 'financial year' and 'previous year' are often used interchangeably. Both denote the year in which the income was earned, which immediately precedes the assessment year. For example, FY 2020-21 can also be referred to as the Previous Year (PY) 2020-21 for the Assessment Year 2021-22.

May/June 2006

11. As per Section 3 of the Income Tax Act, 1961, what is the 'previous year' for a business that was newly set up on October 1, 2020?

(A) The full financial year period from April 1, 2020, to March 31, 2021, regardless of the business setup date.

(B) A complete 12-month period from the business setup date, i.e., from October 1, 2020, to September 30, 2021.

(C) The entire subsequent financial year period from April 1, 2021, to March 31, 2022, ignoring the initial partial year.

(D) The partial period from the setup date, October 1, 2020, to the end of the financial year, March 31, 2021.

Ans :

(D) The partial period from the setup date, October 1, 2020, to the end of the financial year, March 31, 2021.

According to the proviso in Section 3 of the Income Tax Act, 1961, for a newly set up business or a new source of income, the previous year is the period starting from the date the business is set up and ending on March 31st of that financial year. Thus, for a business set up on 01/10/2020, the PY is 01/10/2020 to 31/03/2021.

Oct/Nov 2008

12. Under the Companies Act 2013, what is the normal requirement for a company's financial year?

(A) A flexible period of up to 18 months, as decided by the company's board of directors.

(B) A uniform period of 12 months ending on 31st March every year.

(C) A period of 12 months ending on 31st December, to align with the standard calendar year.

(D) A uniform period of 15 months ending on 30th June with special approval from the ROC.

Ans :

(B) A uniform period of 12 months ending on 31st March every year.

The Companies Act, 2013 mandates that all companies are required to have a uniform

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Ans :

(C) Directly by the portfolio manager, without involving intermediaries in the process

As part of the new regulations effective October 1, 2020, SEBI mandated changes to the onboarding process to increase direct engagement and reduce mis-selling. The guidelines state that "Clients will have to be on boarded directly, avoiding client engagement with the intermediaries and distributors," shifting the responsibility of onboarding to the PMS provider itself.

NODIA

Oct/Nov 2011

100. What is the primary reason why investment banking needs more inputs compared to portfolio management?

(A) Portfolio management requires only a basic, non-professional knowledge of investment principles

(B) Investment banking deals with simple financial instruments, while portfolio management is more complex

(C) Portfolio management is a sell-side activity, while investment banking is a buy-side activity

(D) Investment banking must source new business, whereas portfolio management works with existing capital

Ans :

(D) Investment banking must source new business, whereas portfolio management works with existing capital

The core difference in inputs stems from their fundamental roles. Investment banking (sell-side) is about creating and facilitating transactions; it needs to actively source deals and bring in business by finding capital for clients. Portfolio management (buy-side) operates with capital that the client already possesses, requiring skill and knowledge to manage it effectively.

An individual qualifies as a resident of India if they satisfy at least one of two basic conditions. The first condition is that their stay in India during the relevant financial year is for a period of 182 days or more. The second condition involves a shorter stay in the relevant year combined with a longer stay in preceding years.

May/June 2020

17. Consider the two conditions for determining resident status:
Statement (i): Stay in India for 182 days or more in the financial year.
Statement (ii): Stay in India for 60 days or more in the financial year AND 365 days or more in the 4 immediately preceding years.
An individual is considered a resident if:
(A) Both statement (i) and statement (ii) are satisfied.
(B) Either statement (i) or statement (ii) is satisfied.
(C) Only statement (i) is satisfied.
(D) Only statement (ii) is satisfied.

Ans :

(B) Either statement (i) or statement (ii) is satisfied.
To be classified as a resident for income tax purposes, an individual needs to satisfy only one of the two specified conditions. They are considered a resident if their stay in India is for 182 days or more in the financial year, OR if their stay is for 60 days or more in that year and for 365 days or more in the four preceding years.

Oct/Nov 2005

18. Under the amendment effective from FY 2020-21, an Indian citizen is deemed to be a resident in India if their total income (other than from foreign sources) exceeds a certain limit and they are not liable to tax in any other country. What is this income limit?
(A) ₹15 Lakh
(B) ₹5 Lakh
(C) ₹10 Lakh
(D) ₹20 Lakh

Ans :

(A) ₹15 Lakh
A new provision, effective from FY 2020-21, introduced the concept of a 'deemed resident'. An Indian citizen with a total income (excluding foreign sources) of over ₹15 Lakh will be deemed a resident of India if they are not liable to pay tax in any other country or territory due to their domicile, residence, or similar criteria.

May/June 2017

19. An individual is classified as a 'Resident and Ordinarily Resident' (ROR) if they meet the basic condition for residency and additionally fulfill which of the following?
(A) Has been a resident in at least 1 out of the 5 preceding years and has stayed for a minimum of 365 days in the last 3 preceding years.
(B) Has maintained the status of a resident continuously for all of the 10 immediately preceding previous years.
(C) Has been a resident in at least 2 out of 10 previous years and stayed for at least 730 days in 7 previous years.
(D) Has a documented stay in India exceeding 182 days during each of the 7 immediately preceding previous years.

Ans :

(C) Has been a resident in at least 2 out of 10 previous years and stayed for at least 730 days in 7 previous years.
To be classified as a Resident and Ordinarily Resident (ROR), an individual must first qualify as a resident and then satisfy both of the additional conditions: (1) they must have been a resident in India for at least 2 out of the 10 immediately preceding previous years, and (2) their total stay in India must be 730 days or more during the 7 immediately preceding previous years.

Oct/Nov 2024

20. Effective from FY 2020-21, a citizen of India leaving for employment outside India will be considered ROR if they stay in India for 182 days or more and their total income (other than foreign sources) exceeds what amount?
(A) ₹5 Lakh
(B) ₹10 Lakh
(C) ₹25 Lakh
(D) ₹15 Lakh

Ans :

(D) ₹15 Lakh
As per the guidelines effective from FY 2020-21, an Indian citizen or a person of Indian origin who leaves India for employment abroad during the year can be considered ROR. This is applicable if

May/June 2005

91. Which of the following pairs is INCORRECTLY matched?
(A) Active Management : Strategy that aims to outperform a specific market index
(B) Passive Management : Strategy that aims to replicate the performance of an index
(C) Non-Discretionary PMS : The manager acts primarily in an advisory capacity to the client
(D) Discretionary PMS : The investor retains the right to make the final investment call

Ans :

(D) Discretionary PMS : The investor retains the right to make the final investment call
This pair is incorrectly matched. In Discretionary PMS, the investor delegates decision-making authority to the portfolio manager, who has complete control to manage the portfolio. It is in Non-Discretionary PMS that the investor makes the final investment call. The other pairs are correctly matched with their respective descriptions and objectives.

Oct/Nov 2022

92. A High Net-worth Individual (HNI) with limited time and investment knowledge wants to invest ₹75 Lakhs. They prefer a professional to handle all investment decisions, from strategy to execution, on their behalf. Which type of Portfolio Management Service would be the best option for this client?
(A) Non-discretionary PMS
(B) Discretionary PMS
(C) Passive PMS
(D) Advisory PMS

Ans :

(B) Discretionary PMS
The client has limited time and knowledge and wants a professional to handle all decisions. This situation is the ideal use case for Discretionary PMS. In this service, the client gives the portfolio manager full control and authority to make all investment decisions, which perfectly suits the client's needs for a hands-off, professionally managed investment solution.

May/June 2018

93. An investor wants to hire a portfolio manager. They agree on a fee structure that includes a 1.5% annual management fee plus a 20% share of profits on any returns generated above 8% for the year. In this arrangement, what does the 8% figure represent?
(A) The guaranteed return
(B) The expense ratio
(C) The hurdle rate
(D) The brokerage fee

Ans :

(C) The hurdle rate
The 8% figure represents the hurdle rate. This is the minimum level of performance the portfolio must achieve before the performance-based fee (the 20% profit share) is triggered. The manager only earns this extra fee on returns that exceed this 8% threshold, aligning their incentive with generating superior performance for the client.

Oct/Nov 2016

94. Consider the following statements regarding the advantages of PMS:
1. It offers professional management to deliver consistent long-term performance.
2. It provides flexibility, allowing managers to hold up to 100% cash.
3. It ensures transparency through comprehensive communications and reporting.
4. It allows for customized advice, such as excluding certain stocks from a portfolio.

Which of the above statements are correct?
(A) 1 and 3 only
(B) 2 and 4 only
(C) 1, 2, and 3 only
(D) 1, 2, 3, and 4

Ans :

(D) 1, 2, 3, and 4
All four statements correctly describe the key advantages of Portfolio Management Services. PMS provides professional oversight (1), flexibility in asset holding (2), transparency in operations and reporting (3), and the ability to tailor the portfolio to an individual client's unique circumstances and preferences (4), making it a comprehensive and personalized investment solution.

May/June 2014

95. Based on the text, what is the relationship between the size of a client's assets and the management fee?
(A) As a client's total assets increase, the negotiable fee percentage typically decreases

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(A) It is a unique identification number used exclusively for deducting tax at source (TDS).
(B) It is a registration number used exclusively for filing Goods and Services Tax (GST) returns.
(C) It is a 10-digit alphanumeric identifier for tracking a taxpayer's financial transactions.
(D) It is a number allotted only to companies and firms for their corporate tax filings.

Ans :

(C) It is a 10-digit alphanumeric identifier for tracking a taxpayer's financial transactions.
PAN, or Permanent Account Number, is a ten-digit unique alphanumeric identifier issued by the Income Tax Department. It is a prerequisite for filing tax returns and enables the department to trace all communications, returns, refunds, and other tax-related activities of an assessee, whether they are an individual, HUF, company, or any other entity.

Oct/Nov 2007

26. What is the distinction between a PAN and a TAN?
(A) PAN identifies a taxpayer, while TAN identifies a person liable to deduct tax at source (TDS).
(B) PAN is required for paying income tax, while TAN is required for receiving tax refunds.
(C) PAN is a 12-digit numeric code for individuals, while TAN is a 10-digit code for businesses.
(D) PAN is issued by the State Government, while TAN is issued by the Central Government.

Ans :

(A) PAN identifies a taxpayer, while TAN identifies a person liable to deduct tax at source (TDS).
PAN (Permanent Account Number) is a unique identifier for every taxpayer. TAN (Tax Deduction and Collection Account Number), on the other hand, is a 10-digit alphanumeric number specifically required for persons or entities who are responsible for deducting tax at source (TDS) or collecting tax at source (TCS) and remitting it to the government.

May/June 2014

27. What is the primary objective of the Tax Deducted at Source (TDS) mechanism?
(A) To significantly increase the overall tax burden on the person receiving the income (deductee).
(B) To collect tax from the very source of income at the time the income is generated or paid.
(C) To delay the process of tax collection until the end of the financial year for easier accounting.
(D) To collect tax from the very source of income at the time the income is generated or paid.

Ans :

(D) To collect tax from the very source of income at the time the income is generated or paid.
The mechanism of Tax Deducted at Source (TDS) was introduced with the objective of collecting tax at the source where the income is generated. Under this system, the person (deductor) making a specified payment is required to deduct tax at a prescribed rate and deposit it with the Central Government on behalf of the recipient (deductee).

NODIA

Oct/Nov 2016

28. Which of the following is NOT one of the five main heads of income for the computation of total income?
(A) Income from salary
(B) Income from agricultural activities
(C) Income from house property
(D) Capital gains

Ans :

(B) Income from agricultural activities
The five heads of income for computing total taxable income are: Income from salary; Income from house property; Profits and gains of business or profession; Capital gains; and Income from other sources. While agricultural income exists, it is generally exempt from tax under Section 10(1) of the Income Tax Act and is not one of the five primary taxable heads.

May/June 2018

29. According to Section 15 of the Income Tax Act, which of the following is NOT considered 'Income from salary'?
(A) Components like wages, pension, annuity, and gratuity received from an employer.
(B) Arrears of salary from a previous year that were not paid in that year.
(C) Salary, bonus, or commission received by a partner from the partnership firm.
(D) Any salary amount that is paid in advance before it becomes due.

Section 194P offers conditional relief to senior citizens aged 75 years and above from the requirement of filing an income tax return. This exemption is applicable only if their sole sources of income are pension and interest, and both are received in an account maintained with the same specified bank.

May/June 2007

39. What is the primary characteristic of a slab-based income tax system?

(A) A single, uniform tax rate is applied to all taxpayers, irrespective of their income level.
(B) Tax rates are designed to decrease as the total income of the taxpayer increases.
(C) Tax is levied exclusively on the profits of corporations and not on individual taxpayers.
(D) Different tax rates are prescribed for different predefined ranges (slabs) of income.

Ans :

(D) Different tax rates are prescribed for different predefined ranges (slabs) of income.
A slab system for income tax means that different tax rates are set for different ranges of income. As a taxpayer's income increases, it moves into higher slabs, and the higher rate is applied only to the portion of income within that new slab. This structure facilitates a progressive tax system, where higher earners pay a higher rate.

Oct/Nov 2018

40. For the purpose of income tax slabs, how are 'Resident Super senior citizens' categorized?

(A) Resident individuals who are aged more than 80 years at any time during the financial year.
(B) Resident individuals who are aged between 60 and 80 years during the financial year.
(C) Resident individuals who are aged more than 75 years at any time during the financial year.
(D) Non-resident individuals who are aged more than 60 years during the financial year.

Ans :

(A) Resident individuals who are aged more than 80 years at any time during the financial year.
The Income Tax Act classifies individual taxpayers into different categories for applying slab rates under the old regime. A 'Resident Super senior citizen' is specifically defined as a resident individual who is aged more than 80 years at any time during the relevant financial year. This category enjoys a higher basic exemption limit.

May/June 2023

41. Under the Old Tax Regime for FY 2021-22, what is the basic income tax exemption limit for an individual aged below 60 years?

(A) ₹5,00,000
(B) ₹3,00,000
(C) ₹2,50,000
(D) ₹1,80,000

Ans :

(C) ₹2,50,000
For FY 2021-22, under the Old Tax Regime, the basic income tax exemption limit for individuals below the age of 60 years, as well as for Hindu Undivided Families (HUF) and Non-Resident Indians (NRIs), is set at ₹2,50,000. Income up to this amount is not subject to tax for this category of taxpayers.

Oct/Nov 2009

42. For a resident senior citizen (aged 60 to 80 years) under the Old Tax Regime for FY 2021-22, what is the income tax rate for the income slab of ₹5.00 lakh to ₹10 lakh?

(A) 20%
(B) 5%
(C) 10%
(D) 30%

Ans :

(A) 20%
Under the Old Tax Regime for FY 2021-22, resident senior citizens (aged 60 years and above but below 80 years) have specific slab rates. For income falling in the range of ₹5.00 lakh to ₹10 lakh, the applicable tax rate is 20%. This is the same rate as for individuals below 60 years in this particular slab.

May/June 2016

43. What is the basic income tax exemption limit for a resident super senior citizen (aged 80 years and above) under the Old Tax Regime for FY 2021-22?

(A) ₹2,50,000
(B) ₹3,00,000
(C) ₹10,00,000
(D) ₹5,00,000

Ans :

(D) ₹5,00,000
To provide greater relief to the elderly, the Old Tax Regime offers a higher basic exemption limit for resident super senior citizens. For individuals

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Oct/Nov 2006

34. What choice did the Union Budget 2020 provide to individual and HUF taxpayers under Section 115BAC?

(A) An option to pay tax at lower slab rates by forgoing most specified exemptions and deductions.

(B) A mandatory new tax system with higher rates but also a greater number of deductions.

(C) An option to defer the payment of the entire tax liability for up to five financial years.

(D) A flat tax rate of 15% on all income, regardless of the total income level of the taxpayer.

Ans :

(A) An option to pay tax at lower slab rates by forgoing most specified exemptions and deductions.

The Finance Minister introduced a new tax regime in the Union Budget 2020 via Section 115BAC. This provides an option for individuals and HUF taxpayers to pay income tax at lower, concessional slab rates, on the condition that they give up most of the permissible exemptions and deductions available under the old tax regime.

May/June 2019

35. Refer to the table "Income tax slab rate FY 2021-22 (AY 2022-23): Applicable for New Tax Regime". What is the applicable tax rate for an individual with a taxable income of ₹8,00,000?

(A) 5%

(B) 10%

(C) 15%

(D) 20%

Ans :

(C) 15%

According to the provided table for the New Tax Regime, income is taxed in slabs. The income slab from ₹7.5 lakhs to ₹10.00 Lakhs attracts a tax rate of 15%. Since the individual's taxable income of ₹8,00,000 falls within this specific range, the applicable rate for the portion of income in this slab is 15%.

Oct/Nov 2014

36. Under the New Tax Regime for FY 2021-22, what is the income tax rate for income in the slab of ₹10.00 lakhs to ₹12.50 Lakhs?

(A) 15%

(B) 25%

(C) 30%

(D) 20%

Ans :

(D) 20%

The income tax slab rates under the New Tax Regime for FY 2021-22 are structured progressively. For the income range falling between ₹10.00 lakhs and ₹12.50 Lakhs, the prescribed tax rate is 20%. This is part of the multi-slab structure designed to offer lower rates at various income levels compared to the old regime.

NODIA

May/June 2012

37. What is the tax liability for an individual with a taxable income of ₹2,50,000 under the New Tax Regime for FY 2021-22?

(A) 5% of the income

(B) ₹12,500

(C) NIL

(D) ₹2,500

Ans :

(C) NIL

As per the income tax slab rates applicable for the New Tax Regime for FY 2021-22, there is no tax liability for individuals and HUF on income up to ₹2.5 Lakhs. This is the basic exemption limit under this regime, meaning income within this range is taxed at a NIL rate, resulting in zero tax payable.

Oct/Nov 2025

38. Section 194P, introduced to provide relief from filing income tax returns, is applicable to senior citizens of what age and under what conditions?

(A) Above 60 years, with their sole source of income being a pension from a recognized government or private employer.

(B) Above 75 years, with only pension and interest income received in an account with a single specified bank.

(C) Above 80 years, regardless of their source of income, provided it is below the super senior citizen taxable limit.

(D) Above 70 years, with total income consisting only of pension and rental income from a single registered property.

Ans :

(B) Above 75 years, with only pension and interest income received in an account with a single specified bank.

Oct/Nov 2007

68. What is the maximum deduction available on investments under Section 80C of the Income Tax Act, 1961, per year?
(A) ₹1,00,000
(B) ₹2,00,000
(C) ₹2,50,000
(D) ₹1,50,000

Ans :

(D) ₹1,50,000
Section 80C is one of the most popular tax-saving provisions, covering a wide range of investments and expenditures. The cumulative maximum deduction that a taxpayer (individual or HUF) can claim under this section, through instruments like PPF, ELSS, NSC, life insurance premium, etc., is capped at ₹1.5 lakhs per financial year.

May/June 2014

69. What is the lock-in period for a Tax Saving Fixed Deposit to be eligible for deduction under Section 80C?
(A) 3 years
(B) 10 years
(C) 5 years
(D) 15 years

Ans :

(C) 5 years
To qualify for tax benefits under Section 80C, a Tax Saving Fixed Deposit must have a specific minimum tenure. These FDs come with a mandatory lock-in period of 5 years. Premature withdrawal is not permitted during this tenure. Investment in these deposits is eligible for deduction up to the overall limit of Section 80C.

Oct/Nov 2016

70. Which of the following statements about Life Insurance Premium deduction under Section 80C is correct?
(A) Premium paid for the policy of the taxpayer's parents is allowed as a deduction.
(B) Premium paid for a policy in the name of self, spouse, or children is allowed as a deduction.
(C) Premium paid for the policy of the taxpayer's brothers and sisters is allowed as a deduction.
(D) There is no restriction on the relationship for whom the premium can be paid for the deduction.

Ans :

(B) Premium paid for a policy in the name of self, spouse, or children is allowed as a deduction.
The deduction for life insurance premium under Section 80C is specific about the relationship with the person insured. A taxpayer can claim a deduction for premiums paid on a policy for themselves, their spouse, and their children (whether dependent or not). Premiums paid for parents, siblings, or other relatives are not eligible for this deduction.

May/June 2018

71. Match the tax-saving scheme with its characteristic.
List-I (Scheme)
P. Sukanya Samriddhi Yojana (SSY)
Q. Pradhan Mantri Vaya Vandhana Yojana (PMVVY)
R. Senior Citizen Saving Scheme (SCSS)
S. Equity Linked Savings Scheme (ELSS)
List-II (Characteristic)
1. 10-year lock-in period for senior citizens.
2. For the benefit of a girl child aged ten years or less.
3. 3-year lock-in period.
4. 5-year lock-in period for senior citizens.
(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-2, Q-4, R-1, S-3
(D) P-3, Q-1, R-4, S-2

Ans :

(A) P-2, Q-1, R-4, S-3
SSY (P) is a scheme for a girl child aged 10 or less (2). PMVVY (Q) is a pension scheme for senior citizens with a 10-year lock-in (1). SCSS (R) is a savings scheme for senior citizens with a 5-year lock-in (4). ELSS (S) are tax-saving mutual funds with a 3-year lock-in (3).

Oct/Nov 2022

72. The deduction under Section 80CCC for payment towards an annuity pension plan is clubbed with which other sections for the overall limit of ₹1,50,000?
(A) Section 80C and Section 80CCD
(B) Section 80D and Section 80E
(C) Section 24 and Section 80EE
(D) Section 80TTA and Section 80TTB

Ans :

(A) Section 80C and Section 80CCD

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aged 80 years and above, income up to ₹5,00,000 is fully exempt from income tax. Tax is levied only on income exceeding this threshold, starting with a 20% rate.

Oct/Nov 2023

44. What is the rate of Health & Education cess applicable to the calculated income tax amount for all categories of taxpayers?
(A) 2%
(B) 4%
(C) 3%
(D) 5%

Ans :

(B) 4%
An additional Health & Education cess is levied on the amount of income tax calculated. This cess is applicable to all taxpayers, regardless of their income level or the tax regime they have chosen (Old or New). The rate for this cess is 4% of the income tax and any applicable surcharge.

May/June 2022

45. A surcharge of 10% is applicable on income tax when the total income of an individual exceeds what amount?
(A) ₹10 Lakh
(B) ₹25 Lakh
(C) ₹50 Lakh
(D) ₹2 Crore

Ans :

(C) ₹50 Lakh
Surcharge is an additional tax levied on taxpayers with high incomes. For individuals, a surcharge at the rate of 10% is applicable on the calculated income tax if their total income exceeds ₹50 Lakh but does not exceed ₹1 Crore. Different rates of surcharge apply for income levels beyond ₹1 Crore.

Oct/Nov 2020

46. Which statement accurately describes a key difference between the New and Old tax regimes regarding benefits for senior citizens?
(A) The New Tax regime offers a higher basic exemption limit for both senior and super senior citizens.
(B) The Old Tax regime offers a higher basic exemption limit, while the New Tax regime does not.
(C) Both regimes offer identical, increased basic exemption limits for senior and super senior citizens.
(D) Only super senior citizens are granted an increased exemption limit under the New Tax regime.

NODIA

Ans :

(B) The Old Tax regime offers a higher basic exemption limit, while the New Tax regime does not.
A significant difference between the two regimes lies in the treatment of senior taxpayers. The Old Tax Regime provides an increased basic exemption limit for senior citizens (₹3 lakh) and super senior citizens (₹5 lakh). In contrast, the New Tax Regime has a uniform basic exemption limit of ₹2.5 lakh for all individual taxpayers, irrespective of age.

May/June 2011

47. The tax rebate under Section 87A, which can make tax liability nil, is available to individuals with a net taxable income less than or equal to what amount?
(A) ₹5.0 Lakh
(B) ₹2.5 Lakh
(C) ₹3.0 Lakh
(D) ₹7.5 Lakh

Ans :

(A) ₹5.0 Lakh
The tax rebate under Section 87A is a significant relief for small taxpayers. An individual resident in India whose net taxable income does not exceed ₹5 Lakh is eligible for this rebate. The rebate amount is the income tax payable or ₹12,500, whichever is less, effectively making the tax liability zero for those with income up to ₹5 lakh.

Oct/Nov 2012

48. In which tax regime(s) is the rebate under Section 87A available for eligible individuals?
(A) Only in the New Tax Regime.
(B) In both the New and Old tax regimes.
(C) Only in the Old Tax Regime.
(D) It has been discontinued in both regimes from FY 2021-22.

Ans :

(B) In both the New and Old tax regimes.

(B) ₹65,000
(C) ₹75,000
(D) ₹82,500

Ans :

(A) ₹78,000
Under the New Regime, tax on ₹10,00,000 is: 5% on (5L-2.5L) = ₹12,500; 10% on (7.5L-5L) = ₹25,000; 15% on (10L-7.5L) = ₹37,500. Total tax is ₹75,000. Adding 4% cess (4% of ₹75,000 = ₹3,000) gives a total tax outgo of ₹75,000 + ₹3,000 = ₹78,000.

May/June 2020

59. Based on the total tax outgo calculated in the illustration for both regimes, which option is more beneficial for Mr. A and why?
(A) The New Regime, because its concessional tax rates offer a clear advantage.
(B) The New Regime, because its simplified calculation process is more efficient for the taxpayer.
(C) Both regimes are equally beneficial, as they result in an identical tax liability.
(D) The Old Regime, because it results in a lower total tax outgo for Mr. A.

Ans :

(D) The Old Regime, because it results in a lower total tax outgo for Mr. A.
The illustration shows a total tax outgo of ₹65,000 under the Old Regime and ₹78,000 under the New Regime. Since the tax liability is lower under the Old Regime, it is the more beneficial option for Mr. A. This is because the value of his deductions outweighs the benefit of the lower tax rates in the New Regime.

Oct/Nov 2005

60. If Mr. A's gross income was ₹5,00,000 with no investments or deductions, what would his tax liability be under either the Old or New Regime?
(A) ₹12,500
(B) Nil
(C) ₹2,500
(D) ₹5,000

Ans :

(B) Nil
For a taxable income of ₹5,00,000, the tax liability before rebate is ₹12,500 under both regimes (5% on income between ₹2.5L and ₹5L). However, since the income does not exceed ₹5 Lakh, Mr. A is eligible for a rebate under Section 87A up to ₹12,500. This rebate makes his final tax liability nil.

May/June 2017

61. If Mr. A was a business professional instead of a salaried employee, what is the rule regarding his choice between the tax regimes?
(A) He can freely change his choice of tax regime every financial year.
(B) He must mandatorily adopt the New Tax Regime for all business income.
(C) He can make the choice only once and it remains binding for that business.
(D) He must get prior approval from the tax department to switch regimes.

Ans :

(C) He can make the choice only once and it remains binding for that business.
The rules for selecting a tax regime differ based on the nature of income. While salaried employees can choose between regimes each year, a person with income from business or profession has a more restrictive choice. The option to choose between the tax regimes is available only once for a particular business.

Oct/Nov 2024

62. For a salaried employee who wishes to opt for the New Tax Regime, when must they intimate their employer?
(A) At the end of the financial year, just before tax returns are filed.
(B) At the beginning of the financial year for TDS calculation purposes.
(C) The choice is made only at the time of filing the income-tax return, not with the employer.
(D) At the beginning of the financial year for TDS calculation purposes.

Ans :

(D) At the beginning of the financial year for TDS calculation purposes.
A salaried employee can choose the New Tax Regime and must inform their employer of this choice at the start of the financial year. This allows the employer to deduct TDS according to the slab rates of the chosen regime. While the option can be changed at the time of filing the return, for TDS purposes, the initial choice is binding for that year.

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(A) The New Tax Regime consistently provides a lower tax outgo for all high-income earners.
(B) The Old Tax Regime is consistently the superior choice for individuals with minimal tax-saving investments.
(C) The Old Tax Regime is generally more beneficial for taxpayers who claim significant investments and deductions.
(D) The choice of tax regime, once made, is permanent and cannot be altered in subsequent financial years.

Ans :

(C) The Old Tax Regime is generally more beneficial for taxpayers who claim significant investments and deductions.
The Old Tax Regime allows for various deductions like those under 80C, 80D, and for home loan interest. This makes it more advantageous for individuals who have a financial plan with high investments in tax-saving instruments. Conversely, the New Regime, with its lower rates and no deductions, can be better for those with minimal investments.

Oct/Nov 2008

54. An assessee with a total income up to ₹12 Lakh will have a higher tax liability under the old system if their investments are less than what approximate amount?
(A) ₹1.00 Lakh
(B) ₹1.91 Lakh
(C) ₹1.50 Lakh
(D) ₹2.50 Lakh

Ans :

(B) ₹1.91 Lakh
The text provides an example illustrating the break-even point between the two regimes. It states that an assessee with income up to ₹12 Lakh will face a higher tax liability under the old system if their investments are less than ₹1.91 Lakh. This indicates that below this investment level, the benefit of lower rates in the new regime outweighs the deductions of the old one.

May/June 2024

55. Based on the provided case scenario, what is Mr. A's taxable income if he opts for the Old Tax Regime?
(A) ₹10,00,000
(B) ₹8,50,000
(C) ₹6,50,000
(D) ₹7,50,000

Ans :

(D) ₹7,50,000
Under the Old Regime, Mr. A can claim all his deductions. His taxable income is calculated as Gross Income minus deductions. This would be ₹10,00,000 - ₹1,50,000 (u/s 80C) - ₹25,000 (u/s 80D) - ₹75,000 (u/s 24(b)). The resulting taxable income is ₹7,50,000, as shown in the illustration table.

Oct/Nov 2021

56. What is the income tax payable by Mr. A (before cess) under the Old Tax Regime, based on the provided illustration?
(A) ₹62,500
(B) ₹75,000
(C) ₹50,000
(D) ₹12,500

Ans :

(A) ₹62,500
Mr. A's taxable income is ₹7,50,000. Under the Old Regime: No tax on the first ₹2.5 Lakh. 5% on the next ₹2.5 Lakh (₹12,500). 20% on the remaining ₹2.5 Lakh (₹50,000). The total income tax before cess is the sum of these amounts, which is ₹12,500 + ₹50,000 = ₹62,500.

May/June 2013

57. If Mr. A opts for the New Tax Regime, what will his taxable income be?
(A) ₹8,50,000
(B) ₹7,50,000
(C) ₹10,00,000
(D) ₹9,25,000

Ans :

(C) ₹10,00,000
The primary condition for opting for the New Tax Regime is forgoing most exemptions and deductions. Therefore, Mr. A cannot claim his deductions under sections 80C, 80D, and 24(b). His taxable income will be the same as his gross income, which is ₹10,00,000, as he is not eligible for any of the specified deductions.

Oct/Nov 2015

58. Calculate the total tax outgo (including cess) for Mr. A if he chooses the New Tax Regime, as per the provided table.
(A) ₹78,000

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The benefit of tax rebate under Section 87A is available to eligible resident individuals regardless of the tax regime they choose. An individual with a net taxable income up to ₹5 Lakh can claim this rebate and reduce their tax liability to nil, whether they opt for the concessional rates of the New Regime or stay with the Old Regime.

May/June 2015

49. What is the basic exemption limit for Non-Resident Indians (NRIs) irrespective of their age?
(A) ₹5.0 Lakh
(B) ₹2.5 Lakh
(C) ₹3.0 Lakh
(D) Nil, all income is taxable.

Ans :

(B) ₹2.5 Lakh
For Non-Resident Indians (NRIs), the benefit of increased basic exemption limits based on age (for senior and super senior citizens) is not available. The basic exemption limit for NRIs is ₹2.5 Lakh, regardless of their age. Any income above this threshold is subject to tax as per the applicable slab rates.

Oct/Nov 2013

50. A surcharge of 37% is applicable on income tax when an individual's total income exceeds which of the following thresholds?
(A) ₹5 crore
(B) ₹50 lakh
(C) ₹1 crore
(D) ₹2 crore

Ans :

(A) ₹5 crore
Surcharge rates for individuals are progressive. While lower rates apply for incomes exceeding ₹50 lakh, ₹1 crore, and ₹2 crore, the highest rate of surcharge is 37%. This maximum rate is levied on the income tax payable when an individual's total income for the financial year is greater than ₹5 crore.

May/June 2008

51. Which of the following common exemptions is "not allowed" if a taxpayer opts for the New Tax Regime?
(A) Transport allowance granted to a specially abled person to meet expenditure for commuting.
(B) Deduction under section 80JJAA for the employment of new employees in a business.
(C) Exemption for House Rent Allowance (HRA) received from an employer for rented accommodation.
(D) Deduction for employer's contribution to a Notified Pension Scheme under section 80CCD(2).

Ans :

(C) Exemption for House Rent Allowance (HRA) received from an employer for rented accommodation.
Taxpayers opting for the concessional rates under the New Tax Regime must forgo several common exemptions and deductions. The list of disallowed benefits includes key items like House Rent Allowance (HRA), Leave Travel Allowance (LTA), and Standard Deduction from salary, which are otherwise available to taxpayers under the Old Regime.

Oct/Nov 2017

52. Identify the deduction that is "allowed" under the New Tax Rate Regime.
(A) Standard Deduction on Salary income as specified under Section 16 of the Income Tax Act.
(B) Deductions under Chapter VI-A for various investments and expenses (such as 80C, 80D, 80E).
(C) Deduction for interest on a housing loan for a self-occupied property under Section 24.
(D) Deduction for employer's contribution to a Notified Pension Scheme under section 80CCD(2).

Ans :

(D) Deduction for employer's contribution to a Notified Pension Scheme under section 80CCD(2).
While the New Tax Regime requires forgoing most deductions, it specifically allows a few. Among the permitted deductions is the employer's contribution to the employee's account in a Notified Pension Scheme under Section 80CCD(2). Deductions like Standard Deduction, HRA, and most Chapter VI-A deductions (80C, 80D) are not allowed.

May/June 2006

53. Which of the following statements about choosing between the Old and New Tax Regimes is most accurate?

NODIA

May/June 2010

63. Consider the following entry from the table for non-individual entities: "Company opts for Section 115BAA, wherein the total income... has been calculated without claiming specified deductions, incentives, exemptions and additional depreciation". What is the applicable 'New Regime Tax rate' for such a company?
(A) 22%
(B) 15%
(C) 25%
(D) 30%

Ans :

(A) 22%
The provided table on income tax slabs for domestic companies clearly specifies the tax rates under different sections. For a company that opts for Section 115BAA and computes its income without claiming specified deductions and exemptions, the applicable tax rate under this concessional regime is 22%. This is distinct from rates under other sections like 115BAB or the standard rates.

Oct/Nov 2011

64. A domestic manufacturing company, registered on or after October 1, 2019, and commencing manufacturing before March 31, 2023, can opt for a concessional tax rate of 15% under which section?
(A) Section 115BA
(B) Section 115BAB
(C) Section 115BAA
(D) Section 115BAC

Ans :

(B) Section 115BAB
Section 115BAB was introduced to promote new manufacturing ventures in India. It offers a highly concessional corporate tax rate of 15% to new domestic manufacturing companies that are set up and registered on or after October 1, 2019, and start their manufacturing operations on or before March 31, 2023, subject to certain conditions.

May/June 2009

65. For the previous year 2018-19, if a domestic company's turnover was less than ₹400 crore, what was its applicable income tax rate under the old/existing regime?
(A) 15%
(B) 25%
(C) 22%
(D) 30%

Ans :

(B) 25%
The tax laws provided a lower corporate tax rate for companies with a certain turnover threshold. For a domestic company whose turnover or gross receipt in the previous year 2018-19 did not exceed ₹400 crore, the applicable income tax rate under the existing (old) regime was 25%, as opposed to the higher 30% rate for other companies.

Oct/Nov 2019

66. What is the surcharge rate applicable for domestic companies when their total income is greater than ₹10 Crore?
(A) 12%
(B) 7%
(C) 10%
(D) 15%

Ans :

(A) 12%
Surcharge for domestic companies is levied based on their total income. When the total income of a domestic company exceeds ₹1 Crore but is not more than ₹10 Crore, the surcharge is 7%. However, if the total income is greater than ₹10 Crore, a higher surcharge rate of 12% is applicable on the income tax.

May/June 2025

67. What is the standard income tax rate for a Partnership firm or a Limited Liability Partnership (LLP) as per the old/new regime?
(A) 20%
(B) 25%
(C) 30%
(D) 35%

Ans :

(C) 30%
Unlike individuals and companies, partnership firms and LLPs do not have a slab-based system. They are taxed at a flat rate. The applicable income tax rate for both partnership firms and LLPs is a flat 30% on their total income. No concessional rates have been introduced for them in the new tax regime.

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Ans :

(C) Salary, bonus, or commission received by a partner from the partnership firm.
While 'Income from salary' includes various components like wages, pension, and leave encashment, the salary paid by a firm to its partner is specifically excluded. Such payments are treated as 'Profits and gains of business or profession' under Section 28 and are not considered salary for the purposes of the Act.

Oct/Nov 2022

30. When is rental income from a property taxed under the head 'Income from house property'?
(A) Only if the property is occupied by the owner exclusively for their own residential purposes.
(B) Only if the property is actively and wholly used for carrying on the owner's own business or profession.
(C) Only if the annual gross rental income from the property exceeds a certain legally specified threshold.
(D) When the assessee is the owner of the property and does not use it for their own business or profession.

Ans :

(D) When the assessee is the owner of the property and does not use it for their own business or profession.
As per Section 18, the annual value of any building or land appurtenant, of which the assessee is the owner, is subject to tax under this head. However, it exempts portions of such property used by the assessee for their own business or profession, the profits of which are taxed separately. Even unoccupied property has a notional income.

May/June 2005

31. Which of the following income types is taxable under the head 'Profits and gains of business or profession'?
(A) Interest, salary, or bonus received by a partner from a firm.
(B) Dividend income received from shares of a domestic company.
(C) Rental income received from a let-out residential property.
(D) Winnings from lotteries, game shows, and horse races.

Ans :

(A) Interest, salary, or bonus received by a partner from a firm.
Section 28 of the Income Tax Act specifies the incomes chargeable under the head 'Profits and gains of business or profession'. This includes profits from any business or profession, as well as any interest, salary, or bonus received by a partner of a firm from such firm, which is taxed under this head and not as salary.

Oct/Nov 2010

32. Money or assets received by an assessee from an insurer on account of events like flood, typhoon, or accidental fire are taxable under which head of income?
(A) Income from other sources
(B) Capital gains
(C) Income from salary
(D) Profits and gains of business or profession

Ans :

(B) Capital gains
Section 45 of the Act, which deals with capital gains, includes a provision that money or assets received from an insurer on account of damage or destruction of a capital asset due to events like natural disasters, riots, or fire are treated as consideration received from a transfer and are taxable under the head 'Capital gains'.

May/June 2021

33. Which of the following incomes is typically covered under the head 'Income from other sources'?
(A) Profit realized from the sale of a residential house held for five years.
(B) Dividend income and winnings from lotteries or game shows.
(C) Rental income received from a let-out commercial building.
(D) Salary and perquisites received from an employer during the year.

Ans :

(B) Dividend income and winnings from lotteries or game shows.
'Income from other sources' is a residual head that covers any income not classifiable under the other five heads. As per Section 56, this includes items like dividend income, interest on bank deposits and securities, winnings from lotteries and races, and gifts received, which are all specifically subjected to tax under this head.

NODIA

The deduction available under Section 80CCC for contributions to certain pension funds is part of a larger, combined limit. This limit is clubbed with the deductions available under Section 80C and Section 80CCD(1). The aggregate amount of deduction under these three sections cannot exceed the overall cap of ₹1,50,000.

May/June 2005

73. What is the additional deduction available under Section 80CCD(1B) for contributions to the National Pension System (NPS)?
(A) ₹25,000
(B) ₹1,00,000
(C) ₹50,000
(D) ₹1,50,000

Ans :

(C) ₹50,000
Section 80CCD(1B) provides an exclusive additional deduction for taxpayers who contribute to the National Pension System (NPS) or Atal Pension Yojana. A taxpayer can claim a deduction of up to ₹50,000 under this section. This benefit is over and above the combined limit of ₹1.5 lakh available under Section 80C, 80CCC, and 80CCD(1).

Oct/Nov 2010

74. The deduction for employer's contribution to an employee's pension scheme under Section 80CCD(2) is limited to what percentage of salary for salaried individuals?
(A) 10% of the basic salary plus dearness allowance.
(B) 5% of the basic salary plus dearness allowance.
(C) 15% of the gross salary of the employee.
(D) 20% of the net taxable income of the employee.

Ans :

(A) 10% of the basic salary plus dearness allowance.
Section 80CCD(2) pertains to the employer's contribution to an employee's pension account (like NPS). For salaried individuals, the deduction allowed under this section is capped at 10% of their salary, where 'salary' is defined as basic salary plus dearness allowance. This deduction is available under both tax regimes.

May/June 2021

75. What is the maximum deduction an individual can claim for medical insurance premium for self, spouse, and dependent children (all below 60 years) under Section 80D?
(A) ₹50,000
(B) ₹75,000
(C) ₹1,00,000
(D) ₹25,000

Ans :

(D) ₹25,000
Section 80D allows a deduction for health insurance premiums. For an individual, the deduction is up to ₹25,000 for premiums paid for self, spouse, and dependent children. An additional deduction of up to ₹25,000 (or ₹50,000 if they are senior citizens) can be claimed for premiums paid for parents.

Oct/Nov 2006

76. Under Section 24 of the Income Tax Act, what is the maximum deduction available for interest paid on a home loan for a self-occupied property?
(A) ₹50,000
(B) ₹2,00,000
(C) ₹1,50,000
(D) There is no specified limit.

Ans :

(B) ₹2,00,000
Section 24 provides a significant tax benefit for homeowners. For a loan taken to purchase or construct a house that is self-occupied, the taxpayer can claim a deduction on the interest paid. The maximum amount of this deduction is capped at ₹2 Lakhs per financial year from 'Income from House Property' or other heads of income.

May/June 2019

77. The interest paid on an education loan is allowed as a deduction under which section of the Income Tax Act?
(A) Section 80C
(B) Section 80D
(C) Section 80E
(D) Section 80EE

Ans :

(C) Section 80E
Section 80E provides a deduction for the interest component of a loan taken for higher education.

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under 'Income from other sources'. However, this rule is triggered only if the aggregate value of such money received from non-relatives during a financial year exceeds ₹50,000.

May/June 2006

95. From the taxation point of view, how is a 'gift of immovable property' classified?

(A) An immovable property that is received by an individual without any consideration.
(B) An immovable property that is received for a consideration less than its stamp duty value.
(C) Any property, movable or immovable, received from a relative during a wedding ceremony.
(D) A property that is received as part of an inheritance under a legally valid will.

Ans :

(A) An immovable property that is received by an individual without any consideration.
The tax laws on gifts classify them into different categories. A 'gift of immovable property' specifically refers to a scenario where an individual receives an immovable property, such as land or a building, without paying any consideration for it. If the stamp duty value exceeds ₹50,000, it becomes taxable for the recipient.

Oct/Nov 2008

96. Which of the following statements about tax planning is incorrect?

(A) One can create a Hindu Undivided Family (HUF) through a Will to gain a separate tax exemption limit.
(B) A Will must be written on stamp paper and registered to be legally valid for tax planning purposes.
(C) Transfer of property to a spouse through a Will is not subject to clubbing provisions under Section 64(1).
(D) An executor of a Will is assessed as a separate person until the estate is fully distributed among heirs.

Ans :

(B) A Will must be written on stamp paper and registered to be legally valid for tax planning purposes.
A Will is a flexible instrument for estate and tax planning. It does not require any stamp paper and does not need to be registered to be legally valid. It can be simply written on a plain piece of paper, as long as it is properly signed by the testator and attested by two witnesses.

May/June 2024

97. Consider the following statements:

1. The New Tax Regime offers lower tax rates but requires forgoing most deductions.
2. The Old Tax Regime allows various deductions, making it suitable for those with high investments.
3. The choice between the two regimes is permanent for salaried employees.

Which of the above statements is/are correct?

(A) 1 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2, and 3

Ans :

(B) 1 and 2 only
Statement 1 is correct as the new regime's main feature is lower rates for no deductions. Statement 2 is also correct as the old regime's benefits are realized through deductions. Statement 3 is incorrect; salaried employees can choose between the regimes every year, whereas the choice is more restrictive for those with business income.

Oct/Nov 2021

98. Which of the following pairs is incorrectly matched?

(A) Section 80G : Deduction for interest on home loan
(B) Section 80D : Deduction for medical insurance premium
(C) Section 80E : Deduction for interest on education loan
(D) Section 80C : Deduction for principal repayment of home loan

Ans :

(A) Section 80G : Deduction for interest on home loan
Section 80G pertains to deductions for donations to certain funds and charitable institutions. The deduction for interest on a home loan is primarily covered under Section 24(b) of the Income Tax Act, and to some extent under Section 80EE/80EEA. The other pairs are correctly matched with their respective deductions.

NODIA

Ans :

(B) In the hands of the executor, who is assessed as a separate legal entity.
According to Section 168 of the I.T. Act, after an individual's death, the income of their estate is chargeable to tax in the hands of the executor. The executor is assessed as a separate legal entity and can even enjoy a separate basic exemption limit. This continues as long as the estate's distribution is not complete.

Oct/Nov 2018

82. Any profit or gain arising from the sale of a 'capital asset' is taxed under the head of capital gains in which year?
(A) In the year in which the transfer of the capital asset takes place.
(B) In the year the capital asset was originally purchased or acquired.
(C) In the year immediately following the sale, along with other income.
(D) In a year chosen by the taxpayer for optimal tax planning purposes.

Ans :

(A) In the year in which the transfer of the capital asset takes place.
Capital gains tax is levied on the profit from the transfer of a capital asset. The liability to pay this tax arises in the financial year in which the sale or transfer of the asset occurs. The gain is considered as 'income' for that specific year and must be included in the income tax return for the corresponding assessment year.

May/June 2023

83. What is the holding period for an immovable property (like land or a building) to be considered a short-term capital asset?
(A) 12 months or less
(B) 36 months or less
(C) 24 months or less
(D) 60 months or less

Ans :

(C) 24 months or less
The classification of a capital asset as short-term or long-term depends on its holding period. For immovable properties, such as land, buildings, or house property, the applicable holding period to be classified as a short-term capital asset is 24 months or less. If held for more than 24 months, it becomes a long-term capital asset.

Oct/Nov 2009

84. For which of the following assets is the holding period of 12 months or less used to classify it as a short-term capital asset?
(A) Unlisted shares and other unlisted securities.
(B) Assets such as jewellery, patents, and trademarks.
(C) Immovable property such as a house or a plot of land.
(D) Equity shares listed on a recognized stock exchange in India.

Ans :

(D) Equity shares listed on a recognized stock exchange in India.
While the general rule for most assets is 36 months and for immovable property is 24 months, a shorter holding period of 12 months applies to certain financial assets. These include equity or preference shares listed on a recognized Indian stock exchange, listed securities like debentures, units of UTI, and units of equity-oriented mutual funds.

May/June 2016

85. Assertion (A): If an individual inherits a property, capital gains tax is not applicable at the time of inheritance.
Reason (R): Inheritance is a transfer of property but not a sale, and capital gains arise only on the sale of an asset.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is true; no capital gains tax is levied when property is inherited. Reason (R) correctly explains why. Capital gains tax is triggered by a 'sale' or 'transfer' that involves consideration. Inheritance is considered a transfer without sale, so no gain is realized by the deceased, and thus, no tax liability arises at that point.

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Oct/Nov 2023

86. When determining the holding period for an inherited asset, what rule applies?

(A) The holding period is calculated exclusively from the date of inheritance by the new owner.

(B) The period for which the asset was held by the previous owner is also included in the calculation.

(C) The holding period is always deemed to be long-term, irrespective of the actual duration held.

(D) The holding period starts from the date the legal heir gets the property officially registered in their name.

Ans :

(B) The period for which the asset was held by the previous owner is also included in the calculation.

For inherited assets, the holding period is calculated by including the duration for which the previous owner held the asset. This is a crucial rule because it can result in an asset being classified as long-term even if the current owner has held it for a short time, which impacts the tax calculation through indexation benefits.

May/June 2022

87. What does the term 'Indexed Cost of Acquisition' refer to in the calculation of long-term capital gains?

(A) The original purchase price of the asset without any adjustments for inflation or other factors.

(B) The fair market value of the asset as determined on the date it is sold or transferred.

(C) The original cost of acquisition reduced by the amount of depreciation claimed over the years.

(D) The original cost of acquisition adjusted for inflation using the official Cost Inflation Index (CII).

Ans :

(D) The original cost of acquisition adjusted for inflation using the official Cost Inflation Index (CII).

The 'Indexed Cost of Acquisition' is a concept applicable only to long-term capital assets. It involves adjusting the original cost of the asset to account for the effect of inflation over the holding period. This is done by applying the Cost Inflation Index (CII), which effectively increases the cost base and lowers the taxable capital gain.

Oct/Nov 2020

88. What is the correct formula for calculating Short Term Capital Gain (STCG)?

(A) Full value consideration – Expenses for transfer – Cost of acquisition – Cost of improvement

(B) Full value consideration – Indexed cost of acquisition – Expenses for transfer

(C) Full value consideration – Cost of acquisition – Cost of improvement – Brokerage paid

(D) Full value consideration – Expenses for transfer – Indexed cost of acquisition – Indexed cost of improvement

Ans :

(A) Full value consideration – Expenses for transfer – Cost of acquisition – Cost of improvement

The formula for calculating Short Term Capital Gain is straightforward as indexation benefit is not available. It is calculated by taking the full value of consideration received from the sale and subtracting the expenses incurred exclusively for the transfer, the original cost of acquisition, and any subsequent cost of improvement made to the asset.

NODIA

May/June 2011

89. The formula for calculating Indexed Cost of Acquisition is: (Cost of acquisition) x (CII of the year of transfer) / (CII of which year)?

(A) CII of the year in which a major improvement was made to the asset.

(B) CII of the year immediately preceding the year of the asset's transfer.

(C) CII of the year the asset was first held by the seller or FY 2001-02, whichever is later.

(D) An average of the CII values over the entire holding period of the asset.

Ans :

(C) CII of the year the asset was first held by the seller or FY 2001-02, whichever is later.

The formula for indexation uses the Cost Inflation Index (CII) of the base year to adjust the original cost. The denominator in the formula is the CII of the year the asset was first acquired by the seller. However, if the asset was acquired before

FY 2001-02, the CII for FY 2001-02 is used as the base.

Oct/Nov 2012

90. To claim exemption under Section 54 on the sale of a house property, the long-term capital gain must be reinvested. What is the maximum number of new house properties one can invest in, subject to the gain not exceeding ₹2 crores?
(A) Up to two new house properties.
(B) Only one new house property.
(C) Up to three new house properties.
(D) An unlimited number of properties, provided the entire gain is invested.

Ans :

(A) Up to two new house properties.
An amendment to Section 54 provides an enhanced benefit. A taxpayer can claim exemption on long-term capital gains from the sale of a house property by investing in up to two new residential house properties. This option is available only if the capital gain amount does not exceed ₹2 crores and can be exercised once in a lifetime.

May/June 2015

91. Under Section 54F, to claim exemption on capital gains from the sale of a long-term asset other than a house property, what must be invested?
(A) The capital gain amount must be invested in a new residential house property.
(B) 50% of the net sale consideration must be invested in specified infrastructure bonds.
(C) The capital gain amount must be invested in another similar long-term capital asset.
(D) The entire net sale consideration must be invested in a new residential house property.

Ans :

(D) The entire net sale consideration must be invested in a new residential house property.
The condition under Section 54F is stricter than Section 54. To claim full exemption on capital gains arising from the sale of any long-term asset (like shares or gold), the taxpayer must invest the entire net sale consideration, not just the capital gain, to purchase or construct a new residential house property within the specified timelines.

Oct/Nov 2013

92. What is the maximum investment limit in specified bonds to claim exemption under Section 54EC on capital gains?
(A) ₹10 Lakh
(B) ₹50 Lakh
(C) ₹25 Lakh
(D) ₹1 Crore

Ans :

(B) ₹50 Lakh
Section 54EC allows an exemption for long-term capital gains if they are reinvested in specific infrastructure bonds (like those of NHAI or REC). The investment must be made within six months of the asset transfer. The maximum amount that can be invested to claim this exemption is capped at ₹50 Lakh per financial year.

May/June 2008

93. What is the maximum lock-in period for bonds invested in under Section 54EC to claim capital gains exemption?
(A) 3 years
(B) 7 years
(C) 5 years
(D) 10 years

Ans :

(C) 5 years
To retain the tax exemption claimed under Section 54EC, the specified bonds in which the capital gains have been invested must be held for a minimum period. These bonds cannot be sold or transferred before the lapse of 5 years from the date of their acquisition. Violating this condition would make the exempted gain taxable.

Oct/Nov 2017

94. A monetary gift received by an individual from a non-relative is charged to tax if the aggregate value of such gifts during the year exceeds what amount?
(A) ₹25,000
(B) ₹1,00,000
(C) ₹2,50,000
(D) ₹50,000

Ans :

(D) ₹50,000
Under the provisions of the Income Tax Act, any sum of money received without consideration (a monetary gift) by an individual or HUF is taxable

NODIA

CHAPTER 26

Other Financial Services Provided by Banks

May/June 2018

1. According to the stated objectives, which of the following is a key area of understanding covered in the chapter?
   (A) The process of setting up bank subsidiaries for complex lending operations
   (B) The significance of third-party product distribution in retail banking
   (C) The operational guidelines and technical specifications for core banking solutions
   (D) The detailed regulatory framework for establishing new urban and rural bank branches

   Ans :

   (B) The significance of third-party product distribution in retail banking
   The objectives listed at the beginning of the chapter explicitly mention that readers would be able to understand the significance of third-party distribution of retail banking products. This highlights its importance as a core topic, alongside other areas like bancassurance, cross-selling, and specific social security schemes, which are all part of the bank's extended financial services.

Oct/Nov 2021

2. What are financial services like bancassurance, depository services, and mutual fund distribution, when undertaken by banks either departmentally or through subsidiaries, collectively referred to as?
   (A) Para banking activities
   (B) Core banking activities
   (C) Ancillary banking services
   (D) Treasury operations

   Ans :

   (A) Para banking activities
   The introduction defines para banking activities as eligible financial services that banks are permitted to undertake beyond their core functions. These activities, which include bancassurance, depository services, insurance, MFs, and credit cards, help increase the reach of banks, improve their bottom line, and address a wider spectrum of customer needs in a competitive environment.

May/June 2005

3. Why are banks generally prohibited from offering services like insurance and mutual fund schemes from their own product line?
   (A) Due to a generalized lack of customer demand for such bank-originated products
   (B) Due to inherent operational inefficiencies in managing these complex product lines
   (C) Due to specific regulatory restrictions imposed on banks by financial authorities
   (D) Due to the prohibitively high capital requirements needed for these business lines

   Ans :

   (C) Due to specific regulatory restrictions imposed on banks by financial authorities
   The text states that while some services can be offered on a proprietary model, others like insurance and mutual funds cannot be offered from the bank's own product line. This is explicitly attributed to regulatory restrictions that prohibit banks from directly manufacturing and selling these products, necessitating agency arrangements with specialized service providers.

Oct/Nov 2012

4. When a bank distributes third-party products like mutual funds or insurance, what is its primary role and how does it benefit financially?
   (A) It acts as a principal, bearing the full investment risk and earning all subsequent profits
   (B) It acts as an underwriter, guaranteeing investor returns and earning a risk-based spread

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May/June 2013

99. A taxpayer has a total income of ₹2.25 crores. What is the applicable rate of surcharge on his income tax?

(A) 10%
(B) 15%
(C) 25%
(D) 37%

Ans :

(C) 25%
The surcharge on income tax for individuals is applied in slabs. For total income exceeding ₹2 crore but not exceeding ₹5 crore, the applicable surcharge rate is 25%. Since the taxpayer's income of ₹2.25 crores falls within this bracket, a 25% surcharge will be levied on the calculated income tax.

Oct/Nov 2015

100. For an asset acquired in June 2000 for ₹50,000, what would be considered for calculating the indexed cost of acquisition?

(A) The actual cost of ₹50,000 indexed using the Cost Inflation Index (CII) of FY 1999-2000.
(B) The Fair Market Value of the asset as determined on the date of its sale or transfer.
(C) The actual cost of ₹50,000 without applying any indexation benefit, as it was acquired pre-2001.
(D) The actual cost of ₹50,000 or the Fair Market Value as on April 1, 2001, whichever is higher.

Ans :

(D) The actual cost of ₹50,000 or the Fair Market Value as on April 1, 2001, whichever is higher.
For capital assets acquired before the base year of April 1, 2001, the Income Tax Act provides a specific rule. The cost of acquisition for indexation purposes is taken as the actual cost or the Fair Market Value (FMV) of the asset as on April 1, 2001, at the option of the assessee (typically the higher value is chosen).

NODIA

May/June 2023

9. Which feature of a mutual fund is best described by the adage, "Don't put all your eggs in one basket"?
(A) Professional Management
(B) Liquidity
(C) Diversification
(D) Economies of Scale

Ans :

(C) Diversification
Diversification is an investment strategy inherent in mutual funds that is summed up by the phrase "Don't put all your eggs in one basket". By owning shares in a mutual fund, an investor holds a stake in a wide variety of individual stocks or bonds, which spreads out the investment risk compared to owning only a few individual securities.

Oct/Nov 2019

10. How do mutual funds achieve 'Economies of Scale' for their investors?
(A) By lowering transaction costs through large-volume buying and selling of securities
(B) By guaranteeing a minimum, pre-determined rate of return on all investments made by the fund
(C) By exclusively investing in government-backed securities to completely eliminate market risk
(D) By structuring the fund to provide comprehensive tax benefits under multiple sections of the Income Tax Act

Ans :

(A) By lowering transaction costs through large-volume buying and selling of securities
Mutual funds achieve economies of scale because they transact in large volumes. By buying and selling large quantities of securities simultaneously, the transaction costs incurred by the fund are significantly lower than what an individual investor would pay for smaller transactions. This cost advantage is passed on to the investors in the fund.

May/June 2007

11. What tax benefit is specifically mentioned for investors in Equity Linked Savings Schemes (ELSS)?
(A) A complete exemption from all long-term and short-term capital gains tax on profits realized
(B) A tax deduction for health insurance premiums paid, applicable under section 80D of the IT Act 1961
(C) A provision allowing completely tax-free dividends on all investments made within the specific scheme
(D) A tax deduction on investments up to a specified limit under Section 80C of the IT Act 1961

Ans :

(D) A tax deduction on investments up to a specified limit under Section 80C of the IT Act 1961
The text highlights that investors in mutual funds can enjoy tax benefits in selected schemes. It specifically mentions that schemes like the Equity Linked Savings Scheme (ELSS) offer tax benefits under section 80C of the Income Tax Act, 1961, making them a popular choice for tax-saving investments among retail investors.

Oct/Nov 2014

12. At a fundamental level, mutual funds are primarily variants of which three asset classes?
(A) Gold, Real Estate, and Commodities
(B) Equity (stocks), Fixed-income (bonds), and Money market funds
(C) Venture Capital, Private Equity, and Hedge Funds
(D) Insurance, Pensions, and Annuities

Ans :

(B) Equity (stocks), Fixed-income (bonds), and Money market funds
The chapter states that at the most fundamental level, there are three main varieties of mutual funds. These are equity funds, which invest in stocks; fixed-income funds, which invest in bonds; and money market funds, which invest in short-term debt instruments. All other specialized mutual funds are essentially variants of these core asset classes.

May/June 2021

13. Which type of mutual fund does not have a specified maturity date and allows investors to buy and sell units from the AMC on an ongoing basis?
(A) Closed-ended Fund
(B) Interval Fund
(C) Open-ended Fund
(D) Fixed Maturity Plan

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(C) It acts as a joint venture partner, sharing profits and operational losses equally
(D) It acts as a corporate agent without risk participation, earning fee-based income

Ans :

(D) It acts as a corporate agent without risk participation, earning fee-based income
Banks are permitted by the Reserve Bank of India to offer third-party products by acting as a Corporate Agent without any risk participation. This arrangement allows banks to cover a wider spectrum of customer needs and, importantly, improve their fee-based income through commissions received from the respective service providers for distributing their products.

May/June 2017

5. Which term is used to describe the concept of banks selling financial products other than their traditional banking products, such as mutual funds and insurance?
(A) Universal Banking
(B) Offshore Banking
(C) Para Banking
(D) Wholesale Banking

Ans :

(C) Para Banking
The text explicitly defines the concept of selling products other than banking products as "Para Banking". The Reserve Bank of India has prescribed specific guidelines for banks to engage in different para banking activities, restricting them to operate within the ambit of these guidelines to ensure financial stability and consumer protection.

Oct/Nov 2025

6. What is a mutual fund defined as?
(A) An individual investment account exclusively managed by a bank for a single client
(B) A form of collective investment that pools money from many investors
(C) A government savings scheme that offers subscribers guaranteed, tax-free returns
(D) A type of specialized insurance policy designed to cover specific market-related risks

Ans :

(B) A form of collective investment that pools money from many investors
A mutual fund is defined as a form of collective investment that pools the savings from a number of investors who share a common financial goal. The pooled money is then invested in a diversified portfolio of stocks, bonds, and other securities, managed by a professional fund manager on behalf of the investors.

May/June 2011

7. Who is responsible for managing the pooled money in a mutual fund and investing it in various capital market instruments?
(A) The Reserve Bank of India (RBI)
(B) The individual unit holders
(C) The Securities and Exchange Board of India (SEBI)
(D) An Asset Management Company (AMC)

Ans :

(D) An Asset Management Company (AMC)
The money collected from investors in a mutual fund is managed by an Asset Management Company (AMC). The AMC, through its fund managers, is responsible for making investment decisions and managing the fund's portfolio, which consists of instruments like shares, debentures, and other securities, in line with the fund's stated objectives.

Oct/Nov 2008

8. Which regulatory body's registration is mandatory for an Asset Management Company (AMC) to operate in India?
(A) Securities and Exchange Board of India (SEBI)
(B) Insurance Regulatory and Development Authority (IRDA)
(C) Reserve Bank of India (RBI)
(D) Pension Fund Regulatory and Development Authority (PFRDA)

Ans :

(A) Securities and Exchange Board of India (SEBI)
It is mandatory for an Asset Management Company (AMC) to be registered with the Securities and Exchange Board of India (SEBI). SEBI is the primary regulatory body that oversees and regulates the securities markets and the mutual fund industry in India, ensuring investor protection and orderly market development.

This deduction can be claimed by an individual for an education loan taken for themselves, their spouse, their children, or a student for whom the individual is a legal guardian. The deduction is available for 8 years or until the interest is paid, whichever is earlier.

Oct/Nov 2014

78. Which of the following is a mandatory requirement for a Will made by Hindus, Buddhists, Jains, and Sikhs to be legally valid?

(A) It must be formally registered with the office of the jurisdictional sub-registrar after paying the requisite stamp duty.

(B) It must be drafted and executed exclusively on a non-judicial stamp paper of an appropriate, legally defined value.

(C) It must nominate a government-appointed official or a registered financial institution to serve as the sole executor of the estate.

(D) It must be in writing, signed by the testator, and attested by at least two independent witnesses in the testator's presence.

Ans :

(D) It must be in writing, signed by the testator, and attested by at least two independent witnesses in the testator's presence.

For a Will to be legally valid under the Indian Succession Act (as applicable to Hindus, Buddhists, Jains, and Sikhs), it must adhere to certain formalities. The Will must be in written form, it must be signed by the testator (or by someone else in their presence and by their direction), and it must be attested by a minimum of two witnesses.

May/June 2012

79. How can a Will be used as a tax planning tool to avoid the clubbing provisions under Section 64(1)?

(A) By transferring assets to a spouse or daughter-in-law through a bequest in a Will.

(B) By gifting assets to a spouse or daughter-in-law during the testator's lifetime.

(C) By creating a business partnership that includes minor children as partners.

(D) By selling assets to close relatives at a price significantly below market value.

Ans :

(A) By transferring assets to a spouse or daughter-in-law through a bequest in a Will.

The clubbing provisions of Section 64(1) apply to income arising from assets transferred to a spouse or daughter-in-law without adequate consideration. However, these provisions do not apply to assets transferred through a Will upon the testator's demise. Therefore, a bequest in a Will can transfer assets without attracting clubbing of future income.

Oct/Nov 2025

80. Under what condition can the business income of a discretionary trust, declared by a Will for a dependent relative, avoid being taxed at the maximum marginal rate?

(A) The trust must be formally registered as a Section 8 company under the Companies Act, 2013, to ensure non-profit status.

(B) The trust is the only such trust declared by the person via Will for that specific relative's benefit.

(C) The total business income generated by the trust must not exceed the basic exemption limit in a financial year.

(D) The dependent relative who is the beneficiary of the trust must be a minor or a person with a certified disability.

Ans :

(B) The trust is the only such trust declared by the person via Will for that specific relative's benefit.

As per the second proviso to Section 164(1), the business profits of a discretionary trust declared by a Will would not be liable to tax at the maximum marginal rate. This is allowed if the trust is exclusively for the benefit of a dependent relative for their support and maintenance, and it is the only such trust declared by the testator.

May/June 2007

81. After the death of a testator, in whose hands is the income from the deceased's estate chargeable to tax until the estate is completely distributed?

(A) In the hands of all legal heirs jointly as an Association of Persons (AOP).

(B) In the hands of the executor, who is assessed as a separate legal entity.

(C) The income is held in abeyance and is taxed in a lump sum upon final distribution.

(D) In the hands of the primary beneficiary who is named in the Will to receive the largest share.

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Ans :

(C) Open-ended Fund
An open-ended fund is characterized by the absence of a maturity date. Investors have the flexibility to purchase (enter) or sell (exit) units of the fund at any time directly from the Asset Management Company (AMC) or through other channels like stock exchanges, with prices based on the prevailing Net Asset Value (NAV).

Oct/Nov 2006

14. For closed-ended mutual funds, how is liquidity primarily provided to investors before the scheme's maturity date?
(A) By allowing redemption directly from the Asset Management Company at any time
(B) By offering mandatory periodic repurchase windows on a monthly basis
(C) By automatically converting the units into an open-ended scheme after one year
(D) By listing the units on a stock exchange for trading between investors

Ans :

(D) By listing the units on a stock exchange for trading between investors
Closed-ended funds run for a specific period and do not allow ongoing entry or exit with the AMC. To provide liquidity to investors who may need to sell their holdings before maturity, the units of a closed-ended fund are mandatorily listed on a stock exchange, where investors can buy and sell them among themselves.

May/June 2015

15. Which type of mutual fund combines features of both open-ended and closed-ended funds, allowing transactions only during specific, pre-decided time periods?
(A) Interval Fund
(B) Equity Linked Savings Scheme (ELSS)
(C) Growth Fund
(D) Index Fund

Ans :

(A) Interval Fund
An interval fund provides a blend of the features of both open-ended and closed-ended schemes. Similar to closed-ended funds, investors cannot transact frequently. However, the fund house allows the purchase and redemption of units during specific, pre-decided time intervals at the prevailing Net Asset Value (NAV), offering periodic liquidity.

Oct/Nov 2022

16. According to SEBI's categorization guidelines for open-ended mutual fund schemes, which of the following is NOT one of the five broad classification groups?
(A) Equity Schemes
(B) Commodity Schemes
(C) Debt Schemes
(D) Hybrid Schemes

Ans :

(B) Commodity Schemes
To bring uniformity and standardize scheme categories, SEBI advised mutual funds to classify open-ended schemes into five broad groups. These are Equity Schemes, Debt Schemes, Hybrid Schemes, Solution Oriented Schemes, and Other Schemes. Commodity Schemes are not listed as one of these five primary broad classifications.

May/June 2009

17. In the context of equity scheme classification by market capitalization, a company ranked between 101st and 250th in terms of full market capitalization falls into which category?
(A) Small Cap
(B) Mid Cap
(C) Micro Cap
(D) Large Cap

Ans :

(B) Mid Cap
The chapter specifies the market capitalization-based classification for equity schemes. A Large Cap company is one ranked from 1st to 100th. A Mid Cap company is defined as one that falls in the range of 101st to 250th in terms of full market capitalization. Companies ranked 251st onwards are classified as Small Cap.

Oct/Nov 2016

18. What is the mandatory lock-in period for an open-ended retirement solution oriented scheme?
(A) 5 years from the date of investment or till retirement age, whichever is earlier
(B) 3 years from the date of investment or till the age of 60, whichever is later
(C) 1 year from the date of investment, with an option to renew annually
(D) There is no mandatory lock-in period for

(A) They offer a guaranteed and immediate claim settlement for all reported cases
(B) They cover all pre-existing diseases from the first day of the policy
(C) The premium rates are significantly lower due to bulk purchasing power
(D) They have no waiting period for any type of medical treatment or surgery

Ans :

(C) The premium rates are significantly lower due to bulk purchasing power
The text highlights a key advantage of group health policies offered through banks: the premium rates are very low. It is mentioned that the premiums can be about 50% less as compared to standalone policies, making them an attractive and aggressively marketed product for banks to offer to their customers.

Oct/Nov 2012

46. What is the name of the government's social security insurance scheme that offers life insurance cover for death due to any reason?
(A) Pradhan Mantri Suraksha Bima Yojana (PMSBY)
(B) Atal Pension Yojana (APY)
(C) Varishtha Pension Bima Yojana (VPBY)
(D) Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)

Ans :

(D) Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)
The Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) is specifically identified as an insurance scheme offering life insurance cover for death due to any reason. It is a one-year cover, renewable annually, available to eligible bank account holders, and is administered through LIC and other willing insurance companies.

May/June 2017

47. What is the eligible age group for an individual to join the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)?
(A) 18 to 50 years
(B) 18 to 40 years
(C) 18 to 60 years
(D) 18 to 70 years

Ans :

(A) 18 to 50 years
The scope of coverage for PMJJBY is clearly defined. All individual account holders of participating banks who are in the age group of 18 to 50 years are entitled to join the scheme. While the cover can be renewed annually up to age 55, entry into the scheme is not possible beyond the age of 50.

Oct/Nov 2025

48. What is the annual premium payable per member for the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)?
(A) ₹20
(B) ₹436
(C) ₹330
(D) ₹500

Ans :

(B) ₹436
The text explicitly states the premium for the PMJJBY scheme. The annual premium is ₹436 per member, which is payable for the one-year cover period. This amount is typically auto-debited from the subscriber's bank account with their prior consent to keep the policy in force for the year.

May/June 2011

49. Under the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), at what age does the life assurance for a member terminate?
(A) On attaining age 50 years
(B) On attaining age 55 years
(C) On attaining age 60 years
(D) On attaining age 70 years

Ans :

(B) On attaining age 55 years
One of the conditions for the termination of assurance under PMJJBY is the member's age. The policy assurance terminates upon the member attaining the age of 55 years (age near birthday), subject to annual renewal up to that date. After this age, the member can no longer be covered under the scheme.

Oct/Nov 2008

50. What type of cover is provided under the Pradhan Mantri Suraksha Bima Yojana (PMSBY)?
(A) An insurance scheme providing cover for accidental death and permanent or partial disability
(B) A life insurance scheme that provides cover for death due to any specified reason

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The 'Appetite' component refers to the risk appetite of customers, which varies across different segments. For instance, the risk appetite of a rural affluent customer is noted to be comparatively less than that of an urban counterpart. The strategy dictates that product offerings must be matched to the specific risk appetite of each segment.

May/June 2006

23. What certification is mentioned as essential for the sales staff involved in distributing mutual fund products for the successful implementation of the distribution strategy?

(A) A comprehensive certification from the Reserve Bank of India (RBI) focusing on ethical sales practices

(B) A specialized certification from the Indian Banks' Association (IBA) for advanced financial product sales

(C) A post-graduate diploma in financial management and sales from a nationally recognized university

(D) A mandatory certification from the Association of Mutual Funds in India (AMFI)

Ans :

(D) A mandatory certification from the Association of Mutual Funds in India (AMFI)

The chapter identifies 'Training' as the axle of the entire mutual fund distribution model. It specifically states that the Training and Certification Programme conducted by the Association of Mutual Funds in India (AMFI) is essential for staff who distribute these products, ensuring they can provide better counseling and achieve higher investor satisfaction.

Oct/Nov 2013

24. What was the impact of the abolition of entry loads on equity-based mutual fund schemes on the upfront commissions paid to banks?

(A) The commissions were reduced from around 3.5% to 4% to about 0.75%

(B) The commissions increased from 0.75% to a new range of 3.5% to 4%

(C) The commissions were completely eliminated for all types of mutual fund schemes

(D) The commission structure remained unchanged, with the cost shifted to the AMC

Ans :

(A) The commissions were reduced from around 3.5% to 4% to about 0.75%

The abolition of the collection of entry loads for equity-based schemes was a significant development affecting the MF industry. Since entry loads were used to meet distribution costs, their removal led mutual funds to reduce the upfront commission paid to distributors like banks, with the text citing a drop from around 3.5%-4% to about 0.75%.

May/June 2025

25. According to RBI guidelines, under what condition can a bank undertake mutual fund business with risk participation?

(A) With specific prior approval from SEBI for each individual scheme launched

(B) Provided its Net Non-Performing Assets (NPA) are below a threshold of 1%

(C) Only through a separate subsidiary or joint venture set up for this specific purpose

(D) It is not permitted under any circumstances, even through a subsidiary

Ans :

(C) Only through a separate subsidiary or joint venture set up for this specific purpose

The RBI guidelines are very clear on this matter. Banks are explicitly prohibited from undertaking mutual fund business with risk participation on their own. The only permissible way for a bank to engage in this activity is by setting up a separate entity, specifically a subsidiary or a joint venture, for this purpose.

Oct/Nov 2018

26. What must a sponsoring bank do when it lends its name to a mutual fund it sponsors?

(A) It must insert a disclaimer clause stating it is not liable for the fund's performance or any losses

(B) It must guarantee a minimum rate of return, specified in the offer document, to all early investors in the fund

(C) It must obtain prior written approval from the Ministry of Finance for using its brand name in marketing materials

(D) It must purchase at least 51% of the units in every new scheme as a sponsor to demonstrate its commitment

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retirement schemes, only for ELSS

Ans :

(A) 5 years from the date of investment or till retirement age, whichever is earlier
Solution oriented schemes, such as retirement funds, have a specified lock-in period. For an open-ended retirement fund scheme, the lock-in is for 5 years or until the investor reaches the retirement age, whichever of the two occurs earlier. This is designed to encourage long-term investment for specific life goals.

May/June 2013

19. For a Children's Fund, which is a type of solution-oriented scheme, what is the specified lock-in period?
(A) At least 3 years or till the child attains the age of 21, whichever is later
(B) A fixed, non-negotiable period of 10 years from the date of each investment
(C) At least 5 years or till the child attains the age of majority, whichever is earlier
(D) The lock-in period is flexible and decided by the fund manager on an annual basis

Ans :

(C) At least 5 years or till the child attains the age of majority, whichever is earlier
A Children's Fund, classified under solution-oriented schemes, is an open-ended fund designed for investing for a child's future. It comes with a mandatory lock-in period of at least 5 years or until the child attains the age of majority (18 years), whichever event happens earlier for the investor.

Oct/Nov 2024

20. Which of the following is NOT mentioned as an income trigger or revenue stream for banks distributing mutual funds, particularly for New Fund Offers (NFOs)?
(A) Upfront Commission
(B) Trail (loyalty) Commission
(C) Mobilisation incentives
(D) Annual Management Fee

Ans :

(D) Annual Management Fee
The text lists several income triggers for banks involved in MF distribution. These include Upfront Commission, Trail (loyalty) Commission, Mobilisation incentives, Special Incentives, and Collection Charges. The Annual Management Fee is typically an income for the Asset Management Company (AMC) itself, not a direct commission paid to the distributing bank.

May/June 2019

21. Based on the text below, what is a key element of the "PROPAGATE" model for mutual fund distribution by banks?
"Product: Banks with multiple tie-ups should decide on products of different MFs based on their customer segment and time preferences. Risk: Unlike fixed deposits of banks, MF schemes carry capital risk and return risk. Banks should have in-house research to identify schemes based on the risk profile of their customers. People: People are the driving force... Selecting a marketing staff with the right aptitude and attitude will make sure that schemes reach the external customer."
(A) Profitability
(B) Promotion
(C) People
(D) Processing

Ans :

(C) People
The provided text describes several components of a successful distribution model. The "People" component is highlighted as the driving force, emphasizing the importance of selecting the right internal staff (line staff members) with the correct aptitude to market the schemes effectively to the target external customers, thereby translating purchase intentions into actual sales.

Oct/Nov 2011

22. What does the 'Appetite' component in the context of a bank's mutual fund distribution strategy refer to?
(A) The bank's institutional appetite for earning high, risk-free commissions
(B) The varying penchant for risk-taking among different customer segments
(C) The regulatory limit on the total volume of MF products a bank can sell annually
(D) The fund manager's strategic appetite for investing in high-growth, high-risk stocks

Ans :

(B) The varying penchant for risk-taking among different customer segments

NODIA

Ans :

(A) It pays the sum assured only in the event of the policyholder's death during the term
The basic premise of a term insurance policy is to provide pure risk cover. It secures the financial needs of the nominees by paying the sum assured if the policyholder dies during the policy's tenure. If the policyholder survives the term, no monetary benefit is typically paid out, making it a low-cost, high-cover option.

Oct/Nov 2009

32. Money back policies are described as an extension of which other type of life insurance plan?
(A) Term Insurance Policies
(B) Endowment Plans
(C) Pension Plans
(D) Unit Linked Insurance Plans

Ans :

(B) Endowment Plans
The text describes money back policies as being, in essence, an extension of endowment plans. The key difference is that a money back policy provides liquidity by paying out a fixed amount at specific, regular intervals throughout the policy's duration, rather than paying the entire sum only at maturity or on death.

May/June 2008

33. What is the primary regulatory body responsible for the supervision and development of the insurance sector in India?
(A) Reserve Bank of India (RBI)
(B) Insurance Regulatory and Development Authority (IRDA)
(C) Securities and Exchange Board of India (SEBI)
(D) Ministry of Finance, Government of India

Ans :

(B) Insurance Regulatory and Development Authority (IRDA)
The Insurance Regulatory and Development Authority (IRDA), an agency of the Government of India, is explicitly named as the regulatory body for the insurance sector. Its mandate is to supervise the industry's functioning and promote its orderly development in India, which includes licensing companies and protecting policyholders' interests.

Oct/Nov 2017

34. A bank wishes to set up a subsidiary to undertake insurance business with risk participation. As per the eligibility criteria (as of March 31 of the previous year), what is the minimum net worth the bank must have before this investment?
(A) ₹1000 Crore
(B) ₹500 Crore
(C) ₹2000 Crore
(D) ₹5000 Crore

Ans :

(A) ₹1000 Crore
The chapter lays out specific eligibility criteria for a bank to undertake insurance business with risk participation through a subsidiary/JV. The first condition is that the bank must have a net worth of at least ₹1000 crore. Additionally, its minimum net worth must not fall below ₹500 crore after making the investment.

May/June 2020

35. What is the maximum permissible level of net non-performing assets (NNPA) for a bank that wants to undertake insurance business with risk participation through a subsidiary?
(A) Not more than 5 percent
(B) Not more than 7 percent
(C) Not more than 3 percent
(D) Not more than 10 percent

Ans :

(C) Not more than 3 percent
Among the financial health parameters a bank must meet to be eligible to start an insurance business with risk participation via a subsidiary, the level of net non-performing assets (NNPA) is a key criterion. The guideline specifies that the bank's NNPA level must not be more than 3 percent.

Oct/Nov 2015

36. For a bank to act as an insurance broker departmentally, it must maintain a deposit of a certain amount with a scheduled commercial bank other than itself. What is this deposit amount?
(A) ₹10 Lakh
(B) ₹25 Lakh
(C) ₹1 Crore
(D) ₹50 Lakh

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(D) Ten times less

Ans :

(D) Ten times less
The chapter emphasizes the cost factor as a prime reason for cross-selling. It cites 'Money' magazine, stating that it costs a bank five times less to cross-sell a product to an existing client than it does to go through the process of acquiring an entirely new customer, highlighting the significant cost efficiency of this strategy.

Oct/Nov 2006

56. What is the relationship between the number of products a customer avails from a bank and their brand loyalty?
(A) Loyalty generally increases as the number of products held by a customer increases
(B) Loyalty generally decreases as the number of products held by a customer increases
(C) There is no established correlation between the number of products and customer loyalty
(D) Loyalty is only affected by interest rates offered, not by the number of products held

Ans :

(A) Loyalty generally increases as the number of products held by a customer increases
The text states that cross-selling fosters brand loyalty. It explains that a customer who has availed multiple products from a bank is drawn closer to it and has a lower chance of switching to another bank. Research studies have established that the percentage of loyalty directly increases with the number of products a customer holds.

May/June 2015

57. Which of the following is described as the foremost requirement and the core on which an entire cross-selling strategy is built?
(A) An aggressive and highly incentivized direct sales team
(B) A large, nationwide advertising and marketing budget
(C) A robust and well-maintained customer database
(D) A wide range of high-cost, high-margin deposit products

Ans :

(C) A robust and well-maintained customer database
Among the strategies for effective cross-selling, having a robust customer database is listed as the foremost requirement. This database is the core foundation of the strategy, as it allows for mapping customer profiles to products, slicing and dicing data for targeted campaigns, and communicating effectively with the right customer groups.

Oct/Nov 2022

58. The success of cross-selling depends on offering the right product at the right time. What does the text say about selling a product that is not needed or relevant to the customer?
(A) It will be a futile exercise and may irritate the customer
(B) It is a good way to test the potential market for new and upcoming products
(C) It can lead to higher long-term profits through persistent sales efforts
(D) It is a necessary part of the sales process to identify hidden needs

Ans :

(A) It will be a futile exercise and may irritate the customer
The chapter emphasizes the importance of relevance and timing in cross-selling. It explicitly states that attempting to cross-sell a product which is not needed by or relevant to the customer will be a futile exercise. Successful cross-selling is relationship-based and should not be an irritant to the customer.

May/June 2009

59. What are the two main depositories in India through which banks offer DEMAT services?
(A) NSE and BSE
(B) RBI and SEBI
(C) NCDEX and MCX
(D) NSDL and CDSL

Ans :

(D) NSDL and CDSL
The text mentions that banks have been offering DEMAT/Depository services to add value for their clients. It specifically names the two depositories in India through which these services are provided: the National Securities Depository Limited (NSDL) and the Central Depository Services (India) Ltd. (CDSL).

NODIA

them to offer a wider choice of products to their customers.

May/June 2022

41. In the context of life insurance distribution by banks, what is the key difference between a Corporate Agency and a Referral Arrangement in terms of revenue?

(A) The Corporate Agency model has no direct revenue, while the Referral Arrangement model earns a high, one-time commission

(B) Corporate Agency earns a single, fixed fee per policy, while a Referral Arrangement provides a share in the insurer's annual profits

(C) Corporate Agency earns commission for the full policy term, while Referral Arrangement earns it for the first year only

(D) Both the Corporate Agency and Referral Arrangement models offer completely identical revenue streams throughout the policy's life

Ans :

(C) Corporate Agency earns commission for the full policy term, while Referral Arrangement earns it for the first year only

The diagram on the distribution of life insurance products clearly distinguishes the two models. Under a Corporate Agency model, the bank earns commission revenue streams over the entire policy period. In contrast, a Referral Arrangement is simpler, providing only a referral commission for the first year, with no subsequent revenue flows.

Oct/Nov 2023

42. According to IRDA guidelines for group insurance products, what is a fundamental requirement for the group being offered the policy?

(A) The group should be homogenous and clearly defined in the policy

(B) The group must consist of at least 1,000 members to be eligible

(C) All members of the group must be from the same immediate family

(D) The group must be formed exclusively for the sole purpose of buying insurance

Ans :

(A) The group should be homogenous and clearly defined in the policy

As per the guidelines of IRDA, when insurers offer group products, it is mandatory that the group is homogenous and clearly defined. Every member who is covered under the policy must conform to this group definition, and any deviation from the defined group is not permitted, ensuring the integrity of the group underwriting principle.

May/June 2018

43. What are the two basic types of group insurance covers offered by banks as mentioned in the text?

(A) Single life cover and joint life cover for spouses

(B) Domestic travel cover and international travel cover

(C) Basic term cover and an enhanced endowment cover

(D) Simple fixed cover and dynamic cover on a reducing basis

Ans :

(D) Simple fixed cover and dynamic cover on a reducing basis

The chapter discusses two basic types of group covers offered by banks. The first is a simple fixed cover, which provides a fixed amount on death (e.g., ₹1 lakh). The second is a dynamic cover, typically provided for loan accounts, where the coverage amount reduces in line with the outstanding loan balance.

Oct/Nov 2021

44. What is the typical reimbursement for marketing expenses that banks receive on the premium mobilized under group insurance covers?

(A) About 1% to 2%

(B) About 10% to 15%

(C) About 5% to 7%

(D) About 20% to 25%

Ans :

(B) About 10% to 15%

The income potential from group cover is noted as being attractive for banks. The text states that banks are reimbursed with marketing expenses that amount to about 10% to 15% of the total premium mobilized. This provides a significant fee income opportunity for the banks facilitating these group insurance schemes.

May/June 2005

45. What advantage do group health policies offered by banks have over regular standalone policies?

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Ans :

(D) ₹50 Lakh
The conditions for a bank to act as an insurance broker departmentally include a financial requirement. The bank must maintain a deposit of ₹50 Lakh as per the IRDA (Licensing of Banks as Insurance Brokers) Regulations, 2013. This deposit must be held with another scheduled commercial bank and have a lien with IRDA.

May/June 2024

37. When a bank sells insurance products, how should it treat pure risk term products compared to products with investment components in terms of customer suitability?
(A) Both product types require a mandatory and detailed customer need and suitability assessment
(B) Investment products are deemed universally suitable, while pure risk products require a need assessment
(C) Pure risk term products are deemed universally suitable, while investment products require a need assessment
(D) Neither product type requires any form of suitability assessment as it is the customer's choice

Ans :

(C) Pure risk term products are deemed universally suitable, while investment products require a need assessment
The guidelines on customer appropriateness and suitability make a clear distinction. For products with investment components, the bank must necessarily undertake a customer need assessment before the sale. In contrast, pure risk term products with no investment or growth component are deemed to be universally suitable for customers.

Oct/Nov 2007

38. Which of the following is NOT listed as a function of a direct insurance broker?
(A) Gathering detailed information on the client's business and risk philosophy
(B) Actively assisting the client in the negotiation and settlement process of claims
(C) Providing a legal guarantee for the settlement of all legitimate claims from the insurer
(D) Continuously maintaining detailed, up-to-date knowledge of available insurance products

Ans :

(B) Actively assisting the client in the negotiation and settlement process of claims
The chapter provides a detailed list of the functions of a direct broker. These include understanding the client's business, advising on cover, negotiating claims, and maintaining market knowledge. However, a broker's role is to assist and facilitate; they do not have the authority or responsibility to guarantee the settlement of claims, which remains the insurer's decision.

NODIA

May/June 2016

39. What is the arrangement called when a bank becomes the corporate agent of an insurance company to distribute its policies?
(A) Reinsurance
(B) Co-insurance
(C) Micro-insurance
(D) Bancassurance

Ans :

(D) Bancassurance
The term 'bancassurance' is used to describe the arrangement or partnership where a bank acts as a corporate agent to sell insurance products. This model leverages the bank's extensive branch network and customer base to distribute insurance policies, creating a new fee-based income stream for the bank and expanding the insurer's reach.

Oct/Nov 2005

40. As per the regulations mentioned, what is the maximum number of life insurers, non-life insurers, and standalone health insurers a corporate agent can represent?
(A) Three of each category
(B) One of each category
(C) Two of each category
(D) There is no limit

Ans :

(A) Three of each category
The text specifies the number of insurance companies a corporate agent is permitted to represent. The regulation allows them to represent up to three life insurers, three non-life insurers, and three standalone health insurers. This multi-company representation enables

(C) A health insurance scheme covering expenses for hospitalization and critical illnesses
(D) A retirement plan that offers a guaranteed monthly pension after a certain age

Ans :

(A) An insurance scheme providing cover for accidental death and permanent or partial disability
The Pradhan Mantri Suraksha Bima Yojana (PMSBY) is defined as an Accident Insurance Scheme. It is designed to offer cover for death or disability that occurs specifically on account of an accident. This distinguishes it from PMJJBY, which covers death due to any reason. It is also a one-year renewable policy.

May/June 2023

51. What is the sum insured for total and irrecoverable loss of both eyes or loss of use of both hands under the Pradhan Mantri Suraksha Bima Yojana (PMSBY)?
(A) ₹1 lakh
(B) ₹3 lakh
(C) ₹2 lakh
(D) ₹5 lakh

Ans :

(C) ₹2 lakh
The benefits table for PMSBY clearly outlines the compensation for different events. For the most severe outcomes, including death, total and irrecoverable loss of both eyes, or loss of use of both hands or feet, the scheme provides a sum insured of ₹2 lakh to the member or their nominee.

Oct/Nov 2019

52. A member covered under PMSBY unfortunately meets with an accident resulting in the total and irrecoverable loss of sight in one eye. What is the benefit amount they are entitled to receive under the scheme?
(A) ₹50,000
(B) ₹2 lakh
(C) No benefit is payable
(D) ₹1 lakh

Ans :

(D) ₹1 lakh
The table of benefits under the Pradhan Mantri Suraksha Bima Yojana (PMSBY) specifies the sum insured for partial disability. In the event of total and irrecoverable loss of sight of one eye or loss of use of one hand or foot, the member is entitled to a benefit payment of ₹1 lakh.

May/June 2007

53. What is the annual premium for the Pradhan Mantri Suraksha Bima Yojana (PMSBY)?
(A) ₹12 per annum
(B) ₹99 per annum
(C) ₹20 per annum
(D) ₹330 per annum

Ans :

(C) ₹20 per annum
The premium for PMSBY is stated to be ₹20 per annum per member. This amount is deducted from the account holder's bank account through an 'auto debit' facility in a single installment. This low premium makes the accident insurance cover highly accessible to a large segment of the population.

Oct/Nov 2014

54. Which of the following is NOT a reason provided for why banks should engage in cross-selling?
(A) It reduces the high marketing costs associated with new customer acquisition
(B) It is a regulatory mandate from the Reserve Bank of India for all account holders
(C) It directly improves the overall profit generated per customer relationship
(D) It fosters stronger brand loyalty and reduces customer switching to competitors

Ans :

(B) It is a regulatory mandate from the Reserve Bank of India for all account holders
The text provides several strong business reasons for cross-selling, including the cost advantage over new customer acquisition, increased profitability, and enhanced customer loyalty. However, it is presented as a strategic business initiative for banks to gain a competitive edge, not as a regulatory mandate from the RBI.

May/June 2021

55. According to a finding from 'Money' magazine cited in the text, how much less does it cost a bank to cross-sell to an existing client compared to acquiring a new one?
(A) Two times less
(B) Three times less
(C) Five times less

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Ans :

(A) It must insert a disclaimer clause stating it is not liable for the fund's performance or any losses
As per regulatory guidelines, if a sponsoring bank lends its name to a mutual fund, it must include a clear and suitable disclaimer clause in all publicity materials for new schemes. This disclaimer must explicitly state that the bank is not liable or responsible for any potential loss or shortfall resulting from the scheme's operations.

May/June 2010

27. Which of the following actions is a bank, acting as a distributor of mutual funds, prohibited from doing?
(A) Forwarding investor applications and payments to the registrar and transfer agent
(B) Offering units at the customer's own risk without guaranteeing any returns
(C) Extending credit facilities to customers against the security of their mutual fund units
(D) Acquiring mutual fund units from the secondary market to sell to customers

Ans :

(D) Acquiring mutual fund units from the secondary market to sell to customers
The guidelines for banks undertaking agency business of mutual funds stipulate several conditions. Among them is a clear prohibition: no mutual fund units shall be acquired from the secondary market or bought back from one customer for the purpose of selling them to other customers. All purchases must be fresh from the fund.

Oct/Nov 2010

28. Insurance is fundamentally a tool for managing what?
(A) Investment growth
(B) Financial risk
(C) Tax liability
(D) Cash flow

Ans :

(B) Financial risk
The chapter defines insurance as a financial risk management tool. Through an insurance policy, the insured individual or entity transfers the risk of a potential financial loss to an insurance company. The insurer, in exchange for a premium, agrees to mitigate this risk by providing monetary compensation if the specified loss occurs.

May/June 2014

29. Which of the following is NOT listed as a broad category of insurance products?
(A) Health Insurance
(B) Life Insurance
(C) Asset Insurance
(D) Credit Insurance

Ans :

(C) Asset Insurance
The text introduces the scope of marketing insurance products and lists three broad categories: Health Insurance, Life Insurance, and Asset Insurance. While business insurance and travel insurance are also mentioned as being available, credit insurance is not specified as one of the primary, broad categories in this particular section of the chapter.

Oct/Nov 2020

30. Which type of life insurance policy is designed to pay a lump sum after a specific term (on maturity) or on the policyholder's death, with typical maturities of ten, fifteen, or twenty years?
(A) Term Insurance Policy
(B) Money Back Policy
(C) Pension Plan
(D) Endowment Policy

Ans :

(D) Endowment Policy
An endowment policy is defined as a life insurance contract that provides a dual benefit. It pays out a lump sum amount either upon the death of the insured during the policy term or upon the policy reaching its maturity date if the insured survives the term. These policies combine savings and insurance elements.

May/June 2012

31. What is the primary characteristic of a Term Insurance Policy?
(A) It pays the sum assured only in the event of the policyholder's death during the term
(B) It provides regular, periodic money-back payments during the policy tenure
(C) It builds a significant cash value that can be borrowed against by the policyholder
(D) It guarantees a fixed pension for life to the policyholder after the policy term ends

NODIA

Oct/Nov 2016

60. What is the process of converting physical share certificates into an electronic form known as?
(A) Rematerialization
(B) Dematerialization
(C) Fungibility
(D) Securitization

Ans :

(B) Dematerialization
Dematerialization is defined as the process by which an investor's physical securities certificates are cancelled and the ownership is converted into an equivalent number of securities in electronic form. These electronic holdings are then credited to the investor's demat account with a Depository Participant (DP).

May/June 2013

61. What is the term for an agent of the depository, such as a bank or stockbroker, who is authorized to offer depository services to investors?
(A) Beneficial Owner (BO)
(B) Asset Management Company (AMC)
(C) Depository Participant (DP)
(D) Registrar and Transfer Agent (RTA)

Ans :

(C) Depository Participant (DP)
A Depository Participant (DP) is described as an agent of the depository (like NSDL or CDSL). DPs, which can be banks, financial institutions, or stockbrokers registered with SEBI, act as the interface between the depository and the investor. Investors must open a demat account with a DP to avail depository services.

Oct/Nov 2024

62. Which of the following is NOT listed as a service provided to investors by a Depository Participant (DP)?
(A) Dematerialization and Rematerialization of securities into and from electronic form
(B) Facilitating the pledging or hypothecation of dematerialized securities for loans
(C) Facilitating the electronic settlement of trades done on recognized stock exchanges
(D) Providing investment advice and guaranteeing returns on the held securities

Ans :

(D) Providing investment advice and guaranteeing returns on the held securities
The text provides a comprehensive list of services offered by a DP, including opening demat accounts, dematerialization, rematerialization, trade settlement, and facilitating pledges. However, providing investment advice or guaranteeing returns on securities is not a function of a DP; this falls under the domain of investment advisors or portfolio managers.

May/June 2019

63. What do the first two characters of the 12-digit alphanumeric International Securities Identification Number (ISIN) for a security registered in India signify?
(A) 'IN'
(B) 'ID'
(C) 'BH'
(D) 'RS'

Ans :

(A) 'IN'
The International Securities Identification Number (ISIN) is a unique 12-digit code for a security. The first two digits of the ISIN indicate the country of registration. The text explicitly states that for all securities registered on a depository in India, the first two digits of the ISIN code are 'IN'.

NODIA

Oct/Nov 2011

64. An investor, Mr. Kumar, holds physical share certificates in his individual name 'X' and other certificates jointly with his wife under the name 'XY'. How must he open demat accounts to dematerialize these shares?
(A) He can open a single individual account in the name 'X' and dematerialize all individual and joint shares into it
(B) He must open two separate accounts, one for individual holdings ('X') and another for joint holdings ('XY')
(C) He can open a single joint account with an 'Either or Survivor' mandate, similar to a bank savings account
(D) He must open one joint account in the name 'XY' and is permitted to dematerialize all holdings into that single account

Ans :

(B) He must open two separate accounts, one for individual holdings ('X') and another for joint holdings ('XY')

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion (A) is true as banks are adopting cross-selling strategies. The reason (R) is also true, as the text highlights the cost advantage (five times less) and the benefit of fostering brand loyalty as primary drivers for this strategy. Reason (R) correctly explains the business rationale behind the trend mentioned in assertion (A).

Oct/Nov 2008

92. Identify the incorrect statement regarding Depository Services.
(A) Dematerialized shares are fungible, meaning all holdings of a security are identical and interchangeable.
(B) An investor can open a demat account on an 'Either or Survivor' basis, similar to a bank account.
(C) Rematerialization is the process of converting electronic securities back into physical certificates.
(D) A minor can have a demat account, which is operated by a legal guardian.

Ans :

(B) An investor can open a demat account on an 'Either or Survivor' basis, similar to a bank account.
The chapter explicitly states that an investor cannot open a demat account on an "E or S" (Either or Survivor) basis like a bank account. The holding pattern must be specific (e.g., individual or joint). The other statements regarding fungibility, rematerialization, and a minor's account operated by a guardian are all mentioned as correct facts.

May/June 2023

93. Which of the following statements regarding Portfolio Management Services (PMS) offered by banks is incorrect?
(A) PMS is offered for a fee at the customer's risk, without any guaranteed return on investment
(B) The bank's proprietary investments must be kept separate from the investments of PMS clients
(C) The bank is permitted to deploy portfolio funds for short-term lending in the call money market
(D) The minimum tenure for which a client can place funds for PMS is at least one year

Ans :

(C) The bank is permitted to deploy portfolio funds for short-term lending in the call money market
The guidelines for PMS provided in the chapter explicitly prohibit the deployment of portfolio funds for certain activities. It is clearly stated that portfolio funds shall not be deployed for lending in the call money/bills market or for lending to/placement with corporate bodies. The other statements are correct conditions for providing PMS.

Oct/Nov 2019

94. A bank is undertaking factoring business departmentally on a 'without-recourse' basis for its client, a domestic MSME. As per RBI guidelines, on whom should the bank reckon its credit exposure for prudential norms?
(A) On the assignor (the MSME client)
(B) On the Reserve Bank of India
(C) Equally on both the assignor and the debtor
(D) On the debtor (the corporate buyer)

Ans :

(D) On the debtor (the corporate buyer)
In 'without-recourse' factoring, the credit risk of non-payment by the debtor is borne by the factor (the bank). Therefore, the prudential guidelines stipulate that for factoring on a without-recourse basis, the exposure shall be reckoned on the debtor, who is the ultimate obligor for the payment of the invoice.

May/June 2007

95. Consider the following statements about Sovereign Gold Bonds (SGBs):
1. The interest received on SGBs is tax-free.
2. The bonds are tradable on stock exchanges only if held in demat form.
3. The annual investment ceiling does not include holdings kept as collateral with banks.

Which of the above statements is/are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2 and 3

Ans :

(B) 2 and 3 only

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under management
(C) A 'Clients' Portfolio Account' in its general ledger to reflect all PMS funds received
(D) A 'Segregated Fiduciary Ledger' kept completely outside the bank's main books of accounts

Ans :

(C) A 'Clients' Portfolio Account' in its general ledger to reflect all PMS funds received
To ensure proper accounting and regulatory compliance, a bank providing PMS must maintain a 'Clients' Portfolio Account' in its general ledger. This account reflects the funds received for management on a daily basis. The balance in this account, representing undeployed funds, is treated as outside borrowings for calculating CRR and SLR requirements.

Oct/Nov 2010

70. Among High Net Worth Individuals (HNWIs) in India, which asset class is mentioned as attracting the largest portion of their investments in financial assets?
(A) Equities, attracting around 31% of total investments
(B) Fixed income, attracting around 65% of total investments
(C) Real Estate, attracting around 50% of total investments
(D) Commodities, attracting around 25% of total investments

Ans :

(B) Fixed income, attracting around 65% of total investments
The section on the Indian wealth management scenario notes the investment preferences of HNWIs. While they have started investing in equities (with 31% of total investment), the text explicitly states that fixed income investment remains a favorite, attracting around 65% of the total investment in financial assets by this segment.

May/June 2014

71. Which of the following is NOT listed as an advantage of wealth management services for customers?
(A) Professional guidance that is helpful in effective Tax Planning
(B) Professional assistance that is helpful in the Selection of an Investment Strategy
(C) Professional support that is helpful in long-term Estate Management
(D) A guarantee of a minimum 15% annual return on all managed investments

Ans :

(D) A guarantee of a minimum 15% annual return on all managed investments
Wealth management services offer several advantages, including professional guidance on tax planning, investment strategy selection, estate management, and forward planning. However, these services provide professional advice and management; they do not and cannot guarantee specific or minimum rates of return, as investments are subject to market risks.

Oct/Nov 2020

72. What is factoring?
(A) A financial option where a factor buys a company's accounts receivable at a discount
(B) A long-term loan provided by a bank against the mortgage of fixed assets
(C) A specialized service of managing a company's payroll and statutory compliance
(D) A type of business insurance that covers losses from business interruption

Ans :

(A) A financial option where a factor buys a company's accounts receivable at a discount
Factoring is defined as a financial option for the management of receivables. In this arrangement, a financial institution, known as a factor, purchases the accounts receivable (invoices) of a company (the client). The factor provides immediate cash to the client, and then collects the debt from the client's customers.

May/June 2012

73. According to RBI guidelines, what is the maximum aggregate equity investment a bank can make in factoring subsidiaries and factoring companies as a percentage of its paid-up capital and reserves?
(A) 5%
(B) 15%
(C) 10%
(D) 20%

Ans :

(C) 10%

NODIA

The rules for opening a demat account require that the ownership pattern of the account must exactly match the ownership pattern on the physical share certificates. Therefore, Mr. Kumar must open two distinct demat accounts: one in his individual name ('X') and a separate joint account in the name of 'XY' for the jointly held shares.

May/June 2006

65. What is the process of converting securities held in electronic form back into physical certificate form called?
(A) Dematerialization
(B) Rematerialization
(C) Re-certification
(D) Physicalization

Ans :

(B) Rematerialization
Rematerialization is the reverse of dematerialization. It is the process by which an investor can get their electronic holdings of securities converted back into physical share certificates. This is done by submitting a Remat Request Form (RRF) to the Depository Participant (DP).

Oct/Nov 2013

66. Which of the following is a key benefit of the depository system for an investor?
(A) Elimination of risks associated with physical certificates like theft and forgery
(B) Guaranteed annual appreciation in the market value of the held securities
(C) Higher dividend payments automatically credited on dematerialized shares
(D) Complete exemption from all taxes on capital gains from the sale of securities

Ans :

(A) Elimination of risks associated with physical certificates like theft and forgery
One of the primary advantages of holding securities in dematerialized form is the elimination of risks associated with physical certificates. These risks include bad delivery, damage to certificates, fake securities, delays in transfer, and the possibility of theft, all of which are mitigated by the electronic book-entry system.

May/June 2025

67. What is the minimum period for which funds can be accepted by a bank for Portfolio Management Services (PMS)?
(A) Three months
(B) Six months
(C) One year
(D) Two years

Ans :

(C) One year
A key condition for banks undertaking PMS departmentally is related to the investment horizon. The guidelines stipulate that the funds shall not be accepted for portfolio management for a period of less than one year. Each placement of funds by a client is treated as a separate account with this minimum one-year tenure.

Oct/Nov 2018

68. According to the conditions for banks providing PMS, how should the fee charged to the client be structured?
(A) It must be structured as a percentage of the positive returns generated for the client
(B) It can only be charged to the client if the portfolio generates a positive annual return
(C) It is a fixed, regulated fee that is determined annually by the Reserve Bank of India
(D) It must be a fixed service fee, independent of the investment return to the client

Ans :

(D) It must be a fixed service fee, independent of the investment return to the client
The guidelines for Portfolio Management Services (PMS) offered by banks specify that the service is in the nature of investment consultancy for a fee, entirely at the customer's risk. A crucial condition is that the fee charged by the bank for these services must be independent of the actual investment returns generated for the client.

May/June 2010

69. What must a bank maintain to reflect the funds received for portfolio management, which is treated as outside borrowings for CRR/SLR purposes?
(A) A separate 'Client Investment Register' detailing the specific investments made for each individual client
(B) A consolidated 'PMS Profit and Loss Account' updated daily for all client funds

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(A) Tenor of 10 years, with premature redemption permitted from the 7th year
(B) Tenor of 5 years, with premature redemption permitted from the 3rd year
(C) Tenor of 15 years, with premature redemption permitted from the 10th year
(D) Tenor of 8 years, with premature redemption permitted from the 5th year

Ans :

(D) Tenor of 8 years, with premature redemption permitted from the 5th year
Sovereign Gold Bonds are issued with a specific maturity period. The tenor of the bond is eight years from the date of issue. However, an early exit option is provided to investors, with premature redemption being permitted from the fifth year onwards on the specified interest payment dates.

May/June 2024

79. How is the redemption price of a Sovereign Gold Bond (SGB) on maturity calculated?
(A) Based on the simple average of the closing price of 999 purity gold for the previous 3 business days
(B) Based on the original issue price plus all the accumulated but unpaid interest
(C) Based on the highest recorded price of 999 purity gold during the entire 8-year tenor
(D) Based on a price fixed by the Government of India's notification at the time of redemption

Ans :

(A) Based on the simple average of the closing price of 999 purity gold for the previous 3 business days
The redemption of SGBs is done in Indian Rupees. The redemption price is not fixed but is linked to the prevailing market price of gold. It is calculated based on the simple average of the closing price of gold of 999 purity for the last 3 business days preceding the date of repayment, as published by the IBJA.

Oct/Nov 2007

80. What is the tax treatment for capital gains arising on the redemption of Sovereign Gold Bonds (SGBs) to an individual?
(A) It is taxed at a flat concessional rate of 20% after applying indexation benefits for inflation
(B) The capital gains tax arising on the redemption of the bond to an individual investor has been fully exempted
(C) It is taxed as 'income from other sources' as per the individual's income slab
(D) It is subject to a 10% tax without indexation if held for more than one year, similar to equity

Ans :

(B) The capital gains tax arising on the redemption of the bond to an individual investor has been fully exempted
One of the most significant advantages of investing in SGBs is the tax treatment on maturity. The text explicitly states that the capital gains tax arising on the redemption of SGBs to an individual has been exempted. However, interest earned on the bonds remains taxable as per the Income-tax Act, 1961.

May/June 2016

81. Based on the following information, what was the issue price per gram for an investor who applied online and paid digitally for the Sovereign Gold Bonds 2021-22 (Series IX)?
Information: The standard issue price was ₹4,786 per gram, and a discount of ₹50 per gram was offered for online applications with digital payment.
(A) ₹4,786
(B) ₹4,736
(C) ₹4,836
(D) ₹4,750

Ans :

(B) ₹4,736
The source text provides the standard issue price as ₹4,786 per gram. It also specifies that a discount of ₹50 per gram is offered to investors who apply online and use a digital payment mode. Therefore, the effective issue price for such investors would be the standard price minus the discount (₹4,786 - ₹50 = ₹4,736).

Oct/Nov 2005

82. What is the minimum and maximum age for joining the Atal Pension Yojana (APY)?
(A) Minimum 18 years, maximum 40 years
(B) Minimum 21 years, maximum 50 years
(C) Minimum 18 years, maximum 60 years
(D) Minimum 25 years, maximum 45 years

Ans :

(A) Minimum 18 years, maximum 40 years

NODIA

The eligibility criteria for the Atal Pension Yojana (APY) are clearly defined by age. The scheme is open to all citizens of India with a savings bank account. The minimum age for joining the scheme is 18 years, and the maximum age at which one can join is 40 years.

May/June 2022

83. Under the Atal Pension Yojana (APY), who is eligible to receive the Central Government's co-contribution?
(A) All subscribers who join the scheme after the year 2016
(B) All subscribers who are registered income-tax payers
(C) Eligible subscribers who joined APY before 31st December, 2015
(D) All subscribers irrespective of their joining date or income tax status

Ans :

(C) Eligible subscribers who joined APY before 31st December, 2015
The Central Government's co-contribution was an incentive for early adoption of the scheme. This benefit, amounting to 50% of the contribution up to ₹1,000 per annum for 5 years, was available only for those eligible subscribers (not income-tax payers or covered by other schemes) who joined APY before 31st December, 2015.

Oct/Nov 2023

84. Based on the incentive table below, if a bank has enrolled 450,000 subscribers under APY, what is the incentive for promotional efforts it is entitled to receive per subscriber?
Incentive Table:
1. Less than 1 lakh subscribers: ₹20
2. More than 1 lakh and upto 3 lakh subscribers: ₹30
3. More than 3 lakh and upto 5 lakh subscribers: ₹40
4. More than 5 lakh subscribers: ₹50

(A) ₹20
(B) ₹30
(C) ₹50
(D) ₹40

Ans :

(D) ₹40
The provided table shows a tiered incentive structure for banks based on the total number of APY subscribers they have enrolled. A count of 450,000 subscribers falls into the category of "More than 3 lakh and upto 5 lakh". According to the table, the incentive corresponding to this slab is ₹40.

May/June 2018

85. What is the purity and fineness of the India Gold Coin (IGC)?
(A) 22 karat purity and 916 fineness
(B) 24 karat purity and 995 fineness
(C) 24 karat purity and 999 fineness
(D) 18 karat purity and 750 fineness

Ans :

(C) 24 karat purity and 999 fineness
The India Gold Coin (IGC) is promoted as a product of absolute purity. The text specifies that the coins are of 24 karat purity and 999 fineness, making them one of the purest forms of gold available in the country. This feature is a key selling point for consumers.

Oct/Nov 2021

86. Which organization has been authorized by the Central Government to manufacture and supply the India Gold Coins (IGC)?
(A) Reserve Bank of India (RBI)
(B) MMTC Ltd.
(C) India Government Mint
(D) State Bank of India (SBI)

Ans :

(B) MMTC Ltd.
The chapter states that the Central Government has authorized MMTC (formerly Metals and Minerals Trading Corporation of India) to manufacture the India Gold Coins. MMTC is also responsible for supplying these coins, which feature the Ashok Chakra, to the domestic market through designated channels, including banks.

May/June 2005

87. The gold used for minting the India Gold Coin (IGC) is sourced from where?
(A) Imported from LBMA-accredited refineries in Switzerland and London
(B) Mined exclusively from the Hutti Gold Mines in Karnataka
(C) Purchased from the open domestic market through transparent e-auctions
(D) Mobilized domestically under the Gold Deposit Scheme (GDS) and Gold Monetization Scheme (GMS)

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Ans :

(D) Mobilized domestically under the Gold Deposit Scheme (GDS) and Gold Monetization Scheme (GMS)

To promote the organized recycling of gold within the country, MMTC clarified to the RBI that the gold used for producing the India Gold Coins will only be that which is mobilized domestically. This sourcing is done through the existing Gold Deposit Scheme (GDS) and the Gold Monetization Scheme (GMS).

Oct/Nov 2012

88. In which denominations are the India Gold Coins (IGCs) currently available for sale?

(A) 5 gm, 10 gm, & 20 gm
(B) 1 gm, 2 gm, & 5 gm
(C) 8 gm, 10 gm, & 100 gm
(D) 2 gm, 4 gm, & 8 gm

Ans :

(A) 5 gm, 10 gm, & 20 gm

The text specifies the available weights for the India Gold Coins. It states that currently, the IGCs are available in denominations of 5 grams, 10 grams, and 20 grams. This provides a range of options for investors and buyers interested in purchasing these government-minted gold coins.

May/June 2017

89. Match the following mutual fund features (List-I) with their correct descriptions (List-II).

List-I
P. Professional Management
Q. Liquidity
R. Diversification
S. Simplicity

List-II
1. Spreading risk by investing in a wide range of securities.
2. The ease of converting units into money through market sale.
3. The straightforward process of purchasing units with a small minimum investment.
4. Money is invested by expert fund managers.

(A) P-4, Q-2, R-1, S-3
(B) P-3, Q-1, R-4, S-2
(C) P-4, Q-3, R-2, S-1
(D) P-2, Q-4, R-1, S-3

Ans :

(A) P-4, Q-2, R-1, S-3

The salient features of mutual funds are correctly matched as: Professional Management (P) means money is invested by fund managers (4). Liquidity (Q) refers to the convertibility of units into cash (2). Diversification (R) is the strategy of spreading risk across many securities (1). Simplicity (S) relates to the easy purchase process and small investment amounts (3).

Oct/Nov 2025

90. Which of the following statements is/are correct regarding the distribution of life insurance products by banks?

Statement 1: In a referral arrangement, banks earn commission only for the first year.

Statement 2: In a corporate agency model, commission revenue streams are available over the total policy period.

Statement 3: Banks can offer group policies to specific, defined groups of account holders like savings bank customers or home loan borrowers.

(A) Only Statement 1
(B) Only Statements 1 and 2
(C) Only Statements 2 and 3
(D) All statements 1, 2, and 3

Ans :

(D) All statements 1, 2, and 3

All three statements are correct based on the text. The distribution model diagram and description confirm that referral arrangements provide first-year commission only (1), while corporate agencies offer revenue over the policy period (2). The section on group products explicitly mentions that banks offer these covers to defined groups like account holders and loan borrowers (3).

May/June 2011

91. Assertion (A): Banks are increasingly focusing on cross-selling additional products to their existing customers.

Reason (R): Acquiring a new customer is significantly more expensive than selling an additional product to an existing one, and cross-selling enhances customer loyalty.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

The RBI guidelines for banks undertaking factoring business through a subsidiary impose a limit on their investment. The guideline states that the aggregate of a bank's equity investment in all its factoring subsidiaries and other factoring companies shall not exceed 10% of the bank's total paid-up capital and reserves.

Oct/Nov 2009

74. When a bank provides factoring services departmentally, how is the exposure reckoned for 'with-recourse' factoring?

(A) The full exposure is reckoned on the assignor, as the ultimate credit risk remains with the client

(B) The full exposure is always reckoned on the debtor, as they are the party responsible for the final payment

(C) The exposure is split equally between the debtor and the assignor as per prudential accounting standards

(D) The exposure is reckoned entirely on the import factor in any international two-factor transaction

Ans :

(A) The full exposure is reckoned on the assignor, as the ultimate credit risk remains with the client For prudential exposure norms, the method of reckoning exposure depends on the type of factoring. In 'with-recourse' factoring, the credit risk ultimately remains with the seller of the receivables (the client). Therefore, the guideline specifies that the exposure shall be reckoned on the assignor (the client).

May/June 2008

75. What is the main objective of the Trade Receivables Discounting System (TReDS) platform?

(A) To facilitate large-value foreign exchange transactions for multinational corporates

(B) To provide an electronic platform for primary and secondary trading in government securities

(C) To manage the real-time gross clearing and settlement of inter-bank fund transfers

(D) To address the issues of promptly encashing receivables and eliminating credit risk for MSMEs

Ans :

(D) To address the issues of promptly encashing receivables and eliminating credit risk for MSMEs The TReDS platform, an initiative of the RBI, was launched to address critical financial challenges faced by Micro, Small, and Medium Enterprises (MSMEs). Its main objective is to tackle the twin issues of delayed payments by providing a mechanism for promptly encashing receivables and simultaneously eliminating the associated credit risk.

Oct/Nov 2017

76. What is the fixed interest rate per annum that Sovereign Gold Bonds (SGBs) bear on the amount of initial investment?

(A) 2.00 per cent

(B) 2.50 per cent

(C) 7.75 per cent

(D) 8.00 per cent

Ans :

(B) 2.50 per cent

A key feature of Sovereign Gold Bonds (SGBs) is that they provide regular interest income to investors, unlike physical gold. The text specifies that the Bonds shall bear interest at a fixed rate of 2.50 per cent per annum on the initial investment amount, with interest paid in half-yearly rests.

May/June 2020

77. What is the maximum subscription limit for Sovereign Gold Bonds (SGBs) per fiscal year for a Hindu Undivided Family (HUF)?

(A) 1 kg

(B) 10 kg

(C) 4 kg

(D) 20 kg

Ans :

(C) 4 kg

The government has set annual subscription limits for SGBs to ensure wider participation. The maximum limit per fiscal year (April-March) is 4 kg for individuals, 4 kg for a Hindu Undivided Family (HUF), and 20 kg for trusts and similar entities. This limit applies to the first applicant in case of joint holding.

Oct/Nov 2015

78. What is the tenor of a Sovereign Gold Bond (SGB), and from which year is premature redemption permitted?

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Statement 1 is incorrect; interest on SGBs is taxable. Statement 2 is correct, as the text specifies that only bonds held in demat form can be traded on stock exchanges. Statement 3 is also correct, as the annual investment ceiling explicitly excludes holdings that are used as collateral with financial institutions.

Oct/Nov 2014

96. Mr. Anand, aged 45, subscribes to the Atal Pension Yojana (APY) and opts for a guaranteed minimum pension of ₹5,000 per month. After his demise at age 75, his wife receives the pension until her death. Who is entitled to receive the accumulated pension wealth after the death of both Mr. Anand and his wife?

(A) The Government of India
(B) The nominee of the subscriber
(C) The bank where the APY account was held
(D) It is forfeited to the pension fund

Ans :

(B) The nominee of the subscriber
The features of APY provide for a three-tier benefit structure. After the subscriber's death, the spouse receives the pension. The text clearly states that after the demise of both the subscriber and the spouse, the nominee of the subscriber shall be entitled to receive the pension wealth as accumulated till the subscriber reached age 60.

May/June 2021

97. Which of the following is NOT a feature of the Pradhan Mantri Suraksha Bima Yojana (PMSBY)?

(A) It is a one-year cover, renewable from year to year.
(B) It provides a cover of ₹2 lakh for death due to any reason.
(C) The eligible age for joining is 18 to 70 years.
(D) The premium is ₹20 per annum per member.

Ans :

(B) It provides a cover of ₹2 lakh for death due to any reason.
PMSBY is an accident insurance scheme. While it does provide a ₹2 lakh cover for death, it is applicable only if the death is on account of an accident. The cover for death due to 'any reason' is a feature of the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), not PMSBY.

Oct/Nov 2006

98. Which of the following represents the correct set of players a bank can act as a Corporate Agent for?

(A) Three life insurers, three non-life insurers, three standalone health insurers, and two specialised insurers
(B) One life insurer, one non-life insurer, and one standalone health insurer, as per the original 'tied agency' model
(C) A maximum of five insurers of any type, with the specific mix (e.g., life, non-life) chosen by the bank's board
(D) An unlimited number of insurers across all categories, provided each individual tie-up is pre-approved by IRDA

Ans :

(A) Three life insurers, three non-life insurers, three standalone health insurers, and two specialised insurers
The regulations for Corporate Agents specify the number of tie-ups allowed. A bank can represent three life insurers, three non-life insurers, and three standalone health insurers. In addition, it can represent the two specialised insurance companies, which are the Export Credit Guarantee Corporation and the Agriculture Insurance Corporation of India.

May/June 2015

99. According to the market capitalization classification for equity funds, which statement is correct?

(A) Large Cap: 1st – 50th company; Mid Cap: 51st – 200th company in terms of market capitalization
(B) Large Cap: 1st – 250th company; Small Cap: 251st onwards in terms of market capitalization
(C) Large Cap: 1st – 100th company; Mid Cap: 101st – 250th company in terms of market capitalization
(D) Mid Cap: 100th – 300th company; Small Cap: 301st onwards in terms of market capitalization

Ans :

(C) Large Cap: 1st – 100th company; Mid Cap: 101st – 250th company in terms of market capitalization

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The chapter provides the precise SEBI-mandated definitions based on company rankings by full market capitalization. Large Cap companies are those ranked from 1st to 100th. Mid Cap companies are those ranked from 101st to 250th. Small Cap companies are all those ranked from 251st onwards. This is the correct classification.

Oct/Nov 2022

100. A bank with a net worth of ₹800 crore and a net NPA level of 2.5% wants to set up a joint venture company for undertaking insurance broking. Does this bank meet the net worth eligibility criteria for this activity?

(A) No, because the minimum net worth required for any insurance-related subsidiary is ₹1000 crore

(B) No, because the net NPA level must be below 2% for any insurance-related activity

(C) Yes, because its net NPA is below the 3% threshold required for insurance risk participation

(D) Yes, because the minimum net worth required for insurance broking is ₹500 crore

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Ans :

(D) Yes, because the minimum net worth required for insurance broking is ₹500 crore

The eligibility criteria for setting up a subsidiary/ JV for insurance broking are different from those for risk participation. For broking/corporate agency, the bank's net worth shall not be less than ₹500 Crore after investing in the equity of the company. Since the bank's net worth is ₹800 crore, it meets this specific criterion.

CHAPTER 27

Lender's Appraisal Procedure

May/June 2018

1. What are the three major phases of the loan origination process as described in the initial stages of a customer's loan request?
   (A) Customer verification, property valuation, and legal clearance.
   (B) Information acquisition, credit appraisal and sanction, and disbursement.
   (C) Application submission, documentation verification, and loan closure.
   (D) Pre-sanction analysis, sanction, and post-sanction monitoring.

Ans :

(B) Information acquisition, credit appraisal and sanction, and disbursement.
The loan origination process encompasses all activities from the customer's initial request until the final disbursement. This is broadly divided into three key phases: acquiring the necessary customer and property information, conducting a thorough credit appraisal leading to a sanction decision, and finally, the disbursement of the sanctioned loan amount to the appropriate party.

Oct/Nov 2022

2. What are the two key aspects that lending processes primarily revolve around to ensure a sound credit decision?
   (A) Assessing the customer's creditworthiness and analyzing the inherent risk involved in the lending proposal.
   (B) Evaluating the customer's social standing and the desirability of the property's specific location.
   (C) Considering the specific loan amount requested and the preferred repayment tenure desired by the customer.
   (D) Determining the applicable interest rate to be offered and the standard processing fees charged by the bank.

Ans :

(A) Assessing the customer's creditworthiness and analyzing the inherent risk involved in the lending proposal.
The core of any lending process is a dual-focused evaluation. It involves a meticulous assessment of the borrower's ability and willingness to repay, known as creditworthiness analysis. Simultaneously, it requires a comprehensive analysis of all potential risks associated with the loan, ensuring the bank's exposure is managed effectively and the portfolio's health is maintained.

May/June 2005

3. What is the primary purpose of collecting demographic, employment, and financial details from a loan applicant?
   (A) To fulfill a regulatory formality that has no significant impact on the final loan decision.
   (B) To utilize the collected data for marketing other, unrelated banking products to the customer.
   (C) To provide the necessary inputs for processing the loan and assessing associated risks.
   (D) To establish a long-term business relationship directly with the customer's current employer.

Ans :

(C) To provide the necessary inputs for processing the loan and assessing associated risks.
Capturing detailed demographic, employment, and financial information is a mandatory step in loan processing. This data forms the foundation for evaluating the applicant's creditworthiness and analyzing the lending risk. It allows the credit officer to verify identity, assess income stability, and understand the applicant's financial position, which are all crucial for making an informed credit decision.

Oct/Nov 2010

4. Which statement accurately reflects the techniques used during the credit appraisal and sanction phase of loan origination?

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(A) Credit officers primarily rely on the customer's verbal assurances and personal character to determine loan eligibility.
(B) Loan eligibility is determined almost exclusively based on the appraised market value of the property being offered as security.
(C) The only significant technique used is to check if the applicant's name appears on an internal blacklist of defaulters.
(D) Key techniques include confirming adherence to internal norms and applying weighted risk-based credit scoring.

Ans :

(D) Key techniques include confirming adherence to internal norms and applying weighted risk-based credit scoring.
In the credit appraisal phase, credit officers employ a structured approach. They first ensure the applicant meets the bank's fundamental eligibility criteria and policies. Following this, they use a more sophisticated method of weighted risk-based credit scoring to objectively assess the applicant's risk profile, which helps in determining loan eligibility and the terms of the offer.

May/June 2021

5. What is the primary objective of designing a detailed application form for a home loan?
(A) To function as the legally binding final loan agreement between the financial institution and the borrower.
(B) To act primarily as a promotional or marketing tool designed to attract a higher volume of home loan customers.
(C) To gather data for a preliminary assessment of whether the loan is an acceptable risk under bank policy.
(D) To simply fulfill the basic legal requirement of obtaining a signed, written request for credit from the borrower.

Ans :

(C) To gather data for a preliminary assessment of whether the loan is an acceptable risk under bank policy.
The application form is the crucial first step in the appraisal process. It is meticulously designed to gather all relevant information, allowing the lender to make a preliminary assessment, or 'prima facie' judgment. This helps determine if the proposed loan aligns with the bank's risk appetite and policy parameters before committing further resources to the appraisal.

Oct/Nov 2006

6. For a housing loan, which of the following particulars are essential for the bank to gather to assess repayment capacity and security?
i. Full particulars of the land and building being financed.
ii. Existing income, its source, and its expected continuity.
iii. Existing liabilities and monthly repayment obligations.
(A) Only (i) and (ii)
(B) All (i), (ii), and (iii)
(C) Only (ii) and (iii)
(D) Only (i) and (iii)

Ans :

(B) All (i), (ii), and (iii)
For a housing loan, which is secured by immovable property and repaid from the borrower's income, a comprehensive assessment is vital. The bank must gather details of the property (the security), the borrower's income and its stability (the source of repayment), and existing financial commitments (which affect the disposable income available for the new loan).

May/June 2019

7. Which of the following documents is NOT typically listed as a proof of identity for a home loan application?
(A) Voter's ID Card
(B) Passport
(C) PAN card
(D) Latest revenue tax receipt

Ans :

(D) Latest revenue tax receipt
A latest revenue tax receipt is a document related to the property and is used to verify tax payments, not the identity of the applicant. Proof of identity documents are personal to the individual and include government-issued photo identification like a Voter's ID card, Passport, Driving license, or PAN card, which establish the applicant's legal identity.

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Oct/Nov 2014

8. For which category of individuals is a 'Proof of business address' specifically mentioned as a required document for a home loan?
(A) Non-salaried individuals.
(B) Salaried individuals working in government jobs.
(C) All co-applicants, irrespective of their employment type.
(D) Non-resident Indian (NRI) applicants.

Ans :

(A) Non-salaried individuals.
While proof of residence is required for all applicants, the specific requirement for a 'Proof of business address' is targeted at non-salaried individuals. This helps the bank verify the existence and location of the business from which the applicant derives their income, which is a key part of the income assessment and due diligence process for self-employed borrowers.

May/June 2012

9. Which set of income-related documents is typically required for salaried and non-salaried home loan applicants, respectively?
(A) IT assessment orders for salaried applicants; a Salary Certificate and Form No. 16 for non-salaried applicants.
(B) IT assessment orders for the past three years for both salaried and non-salaried types of applicants.
(C) A Salary Certificate and Form No. 16 for salaried applicants; IT assessment orders for the past three years for non-salaried.
(D) A recent bank statement for salaried applicants; a business registration certificate for non-salaried applicants.

Ans :

(C) A Salary Certificate and Form No. 16 for salaried applicants; IT assessment orders for the past three years for non-salaried.
Lenders differentiate income proof based on the applicant's employment type. For salaried individuals, a Salary Certificate and Form No. 16 provide clear evidence of regular income and tax deductions. For non-salaried individuals, whose income may fluctuate, Income Tax assessment orders for the past three assessment years offer a more comprehensive view of their earnings history.

Oct/Nov 2025

10. Which of the following documents are generally required by a lawyer to provide a legal opinion on the title of a property for a home loan?
i. Sale Deed/Agreement of Sale
ii. Non-encumbrance certificate from the Sub-Registrar's office
iii. RERA approval of the housing project
iv. Statement of Bank Account for the last six months
(A) (i), (ii), and (iii)
(B) (i), (iii), and (iv)
(C) (ii), (iii), and (iv)
(D) (i), (ii), and (iv)

Ans :

(A) (i), (ii), and (iii)
To form a legal opinion on property title, a lawyer needs documents that establish ownership, clear title, and legal compliance. The Sale Deed shows ownership transfer, the Non-encumbrance certificate confirms no existing charges, and RERA approval ensures project legality. A bank statement, however, is used to assess the applicant's financial standing, not the property's legal title.

May/June 2007

11. What is the primary purpose of obtaining a legal opinion from a panel lawyer for a property being financed?
(A) To independently assess and report the current market and forced sale value of the property.
(B) To cross-verify the applicant's income stability and calculate their debt-to-income ratio.
(C) To ensure the construction plan complies with all local building codes and zoning regulations.
(D) To confirm the applicant holds a clear and marketable title to the property.

Ans :

(D) To confirm the applicant holds a clear and marketable title to the property.
The legal opinion is a critical risk mitigation tool for the lender. Its main purpose is to have a legal expert scrutinize the title deeds and related documents to confirm that the borrower has an undisputed, complete, and sellable ownership right over the property. This ensures that the

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Oct/Nov 2015

28. Match the cost components (List-I) with the type of housing loan (List-II) for which they are typically assessed.

List-I

P. Cost of semi-finished flat
Q. Architect's fees
R. Cost of additional items
S. Cost of amenities, service charges

List-II

1. Loan for Construction of House
2. Loan for Purchase of Flat
3. Loan for Purchase of House/Flat (Ready Built)
4. Loan amount request table

(A) P-2, Q-1, R-3, S-4
(B) P-1, Q-2, R-4, S-3
(C) P-2, Q-3, R-1, S-4
(D) P-4, Q-1, R-2, S-3

Ans :

(A) P-2, Q-1, R-3, S-4

The cost components are specific to different loan types. 'Cost of semi-finished flat' is part of assessing a loan for purchasing a flat. 'Architect's fees' are a direct cost in the 'Loan for Construction of House'. 'Cost of additional items' is considered for a 'Loan for Purchase of a Ready-Built House'. 'Cost of amenities' is a general cost listed in the 'Loan amount request' table.

May/June 2013

29. In the 'Loan amount request' assessment, what is the fundamental principle regarding 'Total costs' and 'Total funds'?

(A) Total funds must always be significantly greater than Total costs.
(B) Total costs must always be significantly greater than Total funds.
(C) Total costs should be exactly equal to Total funds.
(D) The relationship between them is considered irrelevant to the loan assessment.

Ans :

(C) Total costs should be exactly equal to Total funds.

This principle is a basic accounting check to ensure the entire property acquisition or construction is fully funded. The 'Total costs' section lists all expenses (e.g., land cost, construction). The 'Total funds' section lists all sources of money (e.g., own savings, loan applied for). These two totals must match to demonstrate a complete financial plan.

Oct/Nov 2021

30. Which two types of interest rate options may be offered for home loans?

(A) Simple and Compound rate loans.
(B) Principal-only and Interest-only loans.
(C) Annual and Monthly rest loans.
(D) Fixed and Floating rate loans.

Ans :

(D) Fixed and Floating rate loans.

Banks typically offer two primary interest rate structures for home loans. A fixed-rate loan has an interest rate that remains unchanged throughout the loan tenure, providing certainty in EMI payments. A floating-rate loan has an interest rate linked to a benchmark, which changes periodically, causing the effective interest rate and potentially the loan tenure to vary.

May/June 2024

31. Against which risks should a house or flat financed by a bank be insured?

(A) Against a comprehensive list of perils such as fire, riots, earthquakes, and floods.
(B) Only against the specific risk of fire damage, as this is considered the most common structural threat.
(C) Only against the specific risks of theft and burglary of contents, as these are common threats to occupants.
(D) Insurance coverage is generally optional and left entirely to the discretion of the property owner.

Ans :

(A) Against a comprehensive list of perils such as fire, riots, earthquakes, and floods.

To protect the value of the security (the house/flat), lenders mandate a comprehensive property insurance policy. This policy must cover a wide range of perils, including fire, riots, earthquakes, lightning, and floods, for the property's full replacement value. This ensures that the asset can be reconstructed even if destroyed by such unforeseen events.

Oct/Nov 2008

32. What is the maximum moratorium period that may be allowed for a home loan where

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Ans :

(B) They are permitted to act only by acting together in unison.
When a POA names multiple donees (agents), the default legal interpretation is that the authority is granted to them as a collective body. Unless the document explicitly contains a clause allowing them to act "severally" (individually) or "jointly and severally," they are permitted to exercise the granted powers only by acting together in unison.

May/June 2014

17. Which of the following statements regarding the acceptance of a Power of Attorney (POA) for creating a mortgage is correct?
(A) A POA is always required for a mortgage transaction, even if both the principal and the agent reside locally.
(B) The bank must confirm with the principal that the POA is authentic and still in force.
(C) The bank should treat all POAs as being irrevocable by default, regardless of whether a specific irrevocability clause is included.
(D) The POA automatically remains valid after the principal's death, allowing the agent to complete the transaction.

Ans :

(B) The bank must confirm with the principal that the POA is authentic and still in force.
To mitigate the risk of fraud associated with POAs, it is a crucial due diligence step for the bank to directly contact the principal (the property owner). This confirmation, typically via a direct letter, verifies the authenticity of the POA, ensures it has not been revoked, and confirms the principal's consent to the mortgage transaction.

Oct/Nov 2007

18. When accepting a Power of Attorney (POA) for creating a mortgage, what is the bank's advised course of action regarding its registration?
(A) The bank should stipulate that the POA be duly registered with the Sub-Registrar's Office.
(B) Registration of the POA is considered optional and is left to the discretion of the POA holder.
(C) The POA only needs to be notarized by a public notary and does not require registration.
(D) Registration is only required if the property's market value exceeds a certain high threshold.

Ans :

(A) The bank should stipulate that the POA be duly registered with the Sub-Registrar's Office.
To enhance the legal standing and enforceability of a Power of Attorney used for a mortgage, banks should insist that it be a registered document. Registration with the Sub-Registrar's office provides an official record of the document's execution, which adds a layer of security and helps in verifying its authenticity and status, such as whether it has been revoked.

May/June 2025

19. Why is it important for a Power of Attorney (POA) used for creating a mortgage to contain a ratification clause?
(A) It grants the POA holder the specific authority to delegate their powers to a sub-agent or another individual.
(B) It makes the POA automatically irrevocable from the date of execution until the associated loan is fully repaid.
(C) It legally binds the principal to all lawful acts performed by the POA holder on their behalf.
(D) It serves to legally limit the personal liability of the POA holder for any actions taken in good faith under the POA.

Ans :

(C) It legally binds the principal to all lawful acts performed by the POA holder on their behalf.
A ratification clause is a vital component of a POA from the lender's perspective. This clause explicitly states that the principal will approve and be legally responsible for all actions lawfully taken by the agent (POA holder) under the authority of the document. It legally binds the principal to the transaction, reinforcing the validity of the mortgage created.

Oct/Nov 2019

20. Based on the source, the appraisal process primarily involves:
Source: "The appraisal comprises a validation of the information submitted by the applicant, collected by the various credit verification agencies, property appraisers, bank's solicitors, etc. In the process of validation, the information is checked against the bank's policy, budgetary guidelines, risk management practices, any

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security being created in favor of the bank is legally sound.

Oct/Nov 2018

12. What specific aspect, apart from valuation, must an approved valuer comment on in their report for a loan involving house construction?
(A) The detailed credit history and past repayment behavior of the loan applicant.
(B) Whether construction can be carried out on the plot as per the submitted plan.
(C) The architectural aesthetics and interior design choices of the proposed building.
(D) The expected monthly rental income from the property after its final completion.

Ans :

(B) Whether construction can be carried out on the plot as per the submitted plan.
The valuer's role extends beyond just assessing the monetary worth of the land. For construction loans, the valuer must also provide a professional opinion on the feasibility of the project. This includes confirming that the proposed construction plan is practically executable on the specific plot of land, considering its physical characteristics and any applicable regulations.

May/June 2023

13. In the case of purchasing a ready-built building or flat, which of the following must the branch ensure?
i. The construction has been approved by the local authorities.
ii. Tax has been paid up to date on the land and building.
iii. The future life of the building is estimated.
(A) Only (i) and (ii)
(B) Only (ii) and (iii)
(C) All (i), (ii), and (iii)
(D) Only (i) and (iii)

Ans :

(C) All (i), (ii), and (iii)
When financing a ready-built property, the bank must conduct due diligence on several fronts. It needs to verify the legality of the construction via approvals from local authorities, ensure there are no outstanding tax liabilities on the property, and assess the building's structural health by estimating its age and remaining useful life to ensure its value persists.

Oct/Nov 2009

14. A Power of Attorney (POA) executed for the purpose of a specific act, such as all acts necessary to perfect a mortgage, is known as what?
(A) A general power of attorney.
(B) A universal power of attorney.
(C) A revocable power of attorney.
(D) A special power of attorney.

Ans :

(D) A special power of attorney.
A Power of Attorney can be broad or limited in scope. When the authority granted is confined to a specific act or a series of related acts that form a single judicial transaction, like completing a property sale or creating a mortgage, it is legally defined as a "special power of attorney," distinct from a general POA.

May/June 2016

15. If a Power of Attorney (POA) is executed in a foreign country for use in India, within what period must it be stamped after being received in India to be considered valid?
(A) Within three months.
(B) Within one month.
(C) Within six months.
(D) Within one year.

Ans :

(A) Within three months.
For a Power of Attorney executed outside India to have legal validity for transactions within India, it must comply with Indian stamp duty laws. The law mandates that such a document must be duly stamped within three months of its arrival in India. Failure to do so renders the POA unstamped and, therefore, unenforceable.

NODIA

Oct/Nov 2016

16. If a Power of Attorney is executed in favor of more than one person without an express provision authorizing them to act severally, how are they entitled to act?
(A) Any one of the named persons is permitted to act individually.
(B) They are permitted to act only by acting together in unison.
(C) They must act in a specific sequence as named in the POA document.
(D) The first-named person in the document has the sole authority to act.

potential rental income from the property being financed, it is a standard practice to consider only a portion (e.g., 50-60%) of the projected rent. This accounts for potential vacancies, maintenance costs, and taxes, making the income assessment more realistic and conservative.

Oct/Nov 2024

24. Statement I: The eligible loan limit is determined by taking the higher of the amount calculated under Parameter 1 (cost-based) and Parameter 2 (income-based).
Statement II: In a take-over loan, the new loan amount sanctioned should not exceed the balance principal outstanding with the previous lender.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, and Statement II is incorrect.
(D) Statement I is incorrect, and Statement II is correct.

Ans :

(D) Statement I is incorrect, and Statement II is correct.
The eligible loan limit is determined by taking the lower of the amount calculated based on property cost (Parameter 1) and the amount based on income (Parameter 2), ensuring both affordability and security value are met. Statement II is correct, as the purpose of a takeover loan is to refinance an existing debt, not to provide additional funds.

May/June 2017

25. An applicant's net monthly income is ₹80,000. As per the bank's policy, B (Net monthly income minus 40% of Total Monthly Gross Income) must be equal to or more than A (EMI for the eligible loan). If the applicant's gross monthly income is ₹1,00,000, what is the maximum EMI the bank can consider him eligible for based on this specific check?
(A) ₹80,000
(B) ₹48,000
(C) ₹40,000
(D) ₹60,000

Ans :

(C) ₹40,000
The condition states that B must be $\geq$ A. First, calculate B. 40% of Total Monthly Gross Income is

$$40\% \times 1,00,000 = 40,000$$

B is Net monthly income minus this amount, so B = 80,000 - 40,000 = 40,000. Since A (EMI) must be less than or equal to B, the maximum permissible EMI is ₹40,000.

Oct/Nov 2005

26. In the appraisal form, under which section would you find details regarding the 'Present age of the borrower' and 'Age at the end of the repayment period'?
(A) Age Eligibility
(B) Legal Opinion
(C) Valuation Details
(D) Security Details

Ans :

(A) Age Eligibility
The 'Age Eligibility' section of the appraisal form is specifically designed to assess factors related to the borrower's age and the loan tenure. It includes the applicant's current age, the proposed repayment period, and critically, the applicant's age at loan maturity to ensure it aligns with their expected working life, especially for salaried individuals.

May/June 2020

27. When conducting an inspection for a home loan on an existing building, which of the following actions is part of the observation process?
(A) Calculating the estimated total cost of construction for the building.
(B) Verifying the borrower's income tax returns for the past three years.
(C) Obtaining the advocate's formal legal opinion on the title of the property.
(D) Interaction with neighbours and officials of the housing society.

Ans :

(D) Interaction with neighbours and officials of the housing society.
The physical inspection of an existing property is not just about viewing the flat. It involves gathering local intelligence to corroborate information and identify potential issues. Speaking with neighbours or society officials can provide valuable insights into the property, the society's functioning, any disputes, and confirm the residency status of the current owners or tenants.

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directly to the bank, significantly minimizing the possibility of payment default.

Oct/Nov 2013

36. What are the key elements of a check-off facility arrangement for a home loan?

i. An irrevocable letter of authority from the borrower for salary deduction.
ii. An undertaking from the employer to obtain a clearance from the bank before settling final dues.
iii. The arrangement is only possible if the salary is paid in cash.

(A) Only (ii) and (iii)
(B) Only (i) and (iii)
(C) All (i), (ii), and (iii)
(D) Only (i) and (ii)

Ans :

(D) Only (i) and (ii)
A check-off facility relies on a formal, structured arrangement. It requires an irrevocable authority from the employee to their employer for salary deduction. Crucially, it also includes an undertaking from the employer to protect the bank's interest during the employee's separation. The mechanism works best when salary is paid through a bank account, not in cash.

May/June 2015

37. Which of the following documents is obtained to create a charge on immovable property when the mortgage is created by deposit of title deeds?

(A) Demand Promissory Note.
(B) Agreement of Guarantee.
(C) Stamped letter of Memorandum of Equitable Mortgage (EM).
(D) Registered Mortgage Deed.

Ans :

(C) Stamped letter of Memorandum of Equitable Mortgage (EM).
While a Registered Mortgage involves a separate deed, an Equitable Mortgage is created by the act of depositing title deeds with an intention to create security. To document this act and intention, the bank obtains a Stamped Letter of Memorandum of Equitable Mortgage from the borrower. This serves as evidence of the creation of the mortgage.

Oct/Nov 2012

38. In the case of a takeover of a home loan from another financial institution, which specific document is required to transfer the mortgage rights to the new lender?

(A) A new Sale Deed for the property.
(B) A Subrogation of mortgage agreement.
(C) A No Objection Certificate from the original builder.
(D) A fresh valuation report of the property.

Ans :

(B) A Subrogation of mortgage agreement.
Subrogation is the legal process where one party (the new lender) takes over the rights and remedies of another (the old lender). In a loan takeover, a subrogation of mortgage agreement is executed. This legally substitutes the new lender in place of the old one, effectively transferring the existing mortgage charge without creating a new one.

May/June 2011

39. What is the maximum permissible age for an engineer's valuation report for a flat, unless it is acquired from a statutory body like a Housing Board?

(A) 1 year
(B) 3 years
(C) 10 years
(D) 5 years

Ans :

(D) 5 years
Property values and conditions can change over time. To ensure the valuation is reasonably current and reflects the property's present state, banks have a policy on the age of valuation reports. For standard loan applications, an engineer's valuation report should not be older than five years. This requirement may be waived for properties from government development authorities.

Oct/Nov 2020

40. Regarding documents relating to the house property, which of the following statements is incorrect?

(A) Parent Documents for the last 10 years are sufficient.
(B) An Encumbrance Certificate for 13 years showing nil encumbrances is required.

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construction is undertaken by a reputed builder and payments are made in stages?

(A) Up to 6 months after the date of the first loan disbursement.
(B) Up to 18 months post-first disbursement or two months post-completion, whichever is first.
(C) Up to 12 months after the date of the first loan disbursement.
(D) Up to 24 months post-first disbursement or three months post-completion, whichever is first.

Ans :

(B) Up to 18 months post-first disbursement or two months post-completion, whichever is first.
A moratorium, or repayment holiday, is granted for under-construction properties because the borrower is not yet using the house. The policy specifies a maximum period of up to 18 months from the first loan disbursement or two months post-construction completion, whichever occurs earlier. This allows the borrower to manage rent and Pre-EMI payments during construction.

May/June 2006

33. Mr. Sharma has a sanctioned home loan of ₹50 lakh at 9% p.a. for construction. The bank disburses the first installment of ₹5 lakh on June 1st. What will be the Pre-EMI interest payable by Mr. Sharma for the month of June? (Assume calculation is based on simple interest).

(A) ₹4,500
(B) ₹3,750
(C) ₹37,500
(D) ₹45,000

Ans :

(B) ₹3,750
Pre-EMI is the simple interest calculated on the disbursed amount for the month.
The formula is

$$\text{Pre EMI} = \text{P} \times \text{R} \times \text{T}$$

Here, P = 5,00,000, R = 9/100 per annum, and T = 1/12 for one month. Calculation:

$$= 5,00,000 \times \frac{9}{100} \times \frac{1}{12}$$

$$= \frac{45,000}{12} = 3,750$$

This is the interest payable until the full loan is disbursed.

Oct/Nov 2017

34. What typically happens in a floating rate interest home loan when the interest rate is changed by the lender?

(A) The lender usually does not change the EMI amount but adjusts the number of instalments.
(B) The lender always recalculates and changes the EMI amount to match the new interest rate.
(C) Both the loan tenure and the fixed EMI amount are both kept constant without any changes.
(D) The borrower is required to pay the entire difference in interest as a single lump sum amount.

Ans :

(A) The lender usually does not change the EMI amount but adjusts the number of instalments.
To provide convenience to the borrower and avoid frequent changes in their monthly budget, lenders typically keep the EMI constant when floating rates change. Instead, the loan's amortization schedule is recalculated. An increase in the interest rate results in an increase in the total number of instalments (longer tenure), and a decrease in rates shortens the tenure.

May/June 2008

35. Assertion (A): For salaried persons, a check-off facility involving an irrevocable authority to the employer is a preferred mode of EMI collection.
Reason (R): This arrangement ensures direct deduction and remittance of the EMI from the salary, reducing the risk of default for the lender.

(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
(C) (A) is true, but (R) is false.
(D) (A) is false, but (R) is true.

Ans :

(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
The check-off facility is highly favored by lenders for salaried borrowers. The assertion that it is a preferred method is true. The reason correctly explains why: it creates a secure repayment mechanism where the EMI is deducted at the source (salary) by the employer and sent

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negative list, etc."

(A) Gathering new information and documents directly from the loan applicant.

(B) Negotiating the final interest rate and other loan charges with the applicant.

(C) Preparing the final disbursement cheque or transfer for the approved borrower.

(D) Validating submitted information against the bank's internal standards and policies.

Ans :

(D) Validating submitted information against the bank's internal standards and policies.

The provided text clearly defines appraisal as a process of "validation." It involves taking the information submitted by the applicant and cross-checking it with data from various agencies. This validated information is then benchmarked against the bank's own internal frameworks, such as its credit policy, risk management practices, and any established negative lists, to ensure compliance.

May/June 2009

21. Which of the following pairs correctly matches the document with its purpose in the home loan appraisal process?

(A) Guarantee Agreement : To be signed by the primary borrower to confirm acceptance of the loan terms.

(B) Equitable Mortgage intent letter : To be addressed by the borrower to their current employer for salary deduction.

(C) Arrangement letter : Outlines the sanctioned terms and conditions for the Housing Finance.

(D) Mortgage Deed : Required in all cases of home loans, including equitable mortgages.

Ans :

(C) Arrangement letter : Outlines the sanctioned terms and conditions for the Housing Finance.

The Arrangement Letter is a key document that formally communicates the bank's offer to the borrower. It details all the specific terms and conditions under which the housing finance is being provided, including the loan amount, interest rate, tenure, and other covenants. This ensures clarity and mutual understanding before the final loan agreements are executed.

Oct/Nov 2011

22. What is the primary purpose of developing and using Risk Asset Acceptance Criteria (RAAC) for home loan applications?

(A) To create a framework that ensures all loan applications are approved, regardless of their risk level.

(B) To ensure consistent and uniform credit standards are applied in the selection of borrowers.

(C) To completely replace the need for human credit officers with a fully automated approval system.

(D) To establish a single, standard processing fee applicable to all types of home loan applications.

Ans :

(B) To ensure consistent and uniform credit standards are applied in the selection of borrowers.

Risk Asset Acceptance Criteria (RAAC) provide a structured policy framework for accepting loan proposals. By defining parameters like preferred age, minimum income, and credit score, RAAC ensures that all credit officers apply the same high-quality, objective standards. This prevents disparate credit decisions and helps in building and maintaining a healthy loan portfolio for the bank.

May/June 2010

23. According to the home loan appraisal parameters, what is the typical approach for considering 'Other income' like future rentals when calculating monthly income?

(A) The full 100% of the projected future rental income is added to the applicant's total income.

(B) Any potential future rental income is completely ignored and not included in the calculation.

(C) Only rental income that is already being received for at least one year is considered.

(D) A conservative percentage, such as 50-60%, of the future rental income is added.

Ans :

(D) A conservative percentage, such as 50-60%, of the future rental income is added.

When assessing income, lenders are cautious about future, unconfirmed income streams. For

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(C) If the parent sale deed is not available, a patta is a must.
(D) A legal opinion from the bank's advocate certifying clear title is necessary.

Ans :

(A) Parent Documents for the last 10 years are sufficient.
To establish a clear and long chain of ownership, banks typically require parent documents for a significant period. The text specifies a requirement for "Parent Documents of 30 years." A 10-year period would be considered insufficient to trace the title history adequately and identify any potential old claims or defects in the title.

May/June 2022

41. What is the primary purpose of obtaining a 'pari passu' letter in a second mortgage scenario?
(A) To give the second charge holder absolute priority over the first charge holder's claims.
(B) To authorize the first charge holder to release the property documents directly to the borrower.
(C) To establish that both charge holders will have equal rights over the secured property.
(D) To automatically extend the repayment period of the first loan that was sanctioned.

Ans :

(C) To establish that both charge holders will have equal rights over the secured property.
'Pari passu' is a Latin term meaning 'on equal footing'. In finance, a pari passu charge means that multiple lenders who have a charge over the same asset will rank equally. If the asset is sold, the proceeds will be distributed among them proportionally to their respective debts, without any lender having priority over the others.

Oct/Nov 2023

42. How does Section 58(a) of the Transfer of Property Act, 1882 define a 'mortgage'?
(A) A transfer of an interest in specific property to secure a loan or other financial obligation.
(B) An absolute sale of a property, subject to a condition allowing the original owner to repurchase it later.
(C) A temporary lease of a property given in exchange for a one-time, large lump sum payment or deposit.
(D) An unconditional gift of a property from a debtor to a creditor as a final settlement for a previous debt.

Ans :

(A) A transfer of an interest in specific property to secure a loan or other financial obligation.
The legal definition of a mortgage is precise. It is not an outright sale but a transfer of a limited 'interest' in a specified immovable property. The purpose of this transfer is not ownership, but to act as security for the repayment of money (an existing or future loan) or the fulfillment of an obligation that has a financial implication.

May/June 2016

43. What are the two primary types of mortgage commonly used by banks in India to accept immovable property as security?
(A) Usufructuary Mortgage and Anomalous Mortgage, which are defined in property law.
(B) Mortgage by Conditional Sale and English Mortgage, which involve transfer of ownership.
(C) First Mortgage and Second Mortgage, which define the priority of the lender's charge.
(D) Registered or Simple Mortgage, and Mortgage by Deposit of Title Deeds (Equitable Mortgage).

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Ans :

(D) Registered or Simple Mortgage, and Mortgage by Deposit of Title Deeds (Equitable Mortgage).
While the Transfer of Property Act defines several types of mortgages, for practical banking purposes, two forms are predominantly used. The first is a Registered or Simple Mortgage, which involves a formal registered deed. The second, and more common for its convenience, is the Mortgage by Deposit of Title Deeds, also known as an equitable mortgage.

Oct/Nov 2009

44. What is a key feature of a Simple Registered Mortgage?
(A) The physical possession of the mortgaged property is always delivered to the mortgagee.
(B) The mortgagor binds himself personally to pay the mortgage money and is liable for the debt.
(C) The property can be sold by the mortgagee without any court intervention in case of default.
(D) It does not require any form of registration with the Sub-Registrar to be legally valid.

Ans :

(B) Approximately 1% of the market value, with a maximum cap of ₹30,000.
The registration fee is a charge levied by the state government for the service of registering a document. As per the details provided for Maharashtra, this fee is calculated at approximately 1% of the property's market value (on which stamp duty is charged) for specific transactions like sale, but it is capped at a maximum amount of ₹30,000.

May/June 2025

61. What is the consequence if a document for registration is presented in a language not commonly used in the district?
(A) The document is automatically accepted and registered as presented without any issue.
(B) The presenter must pay a substantial penalty fee for using a non-standard language.
(C) The Registering Officer can refuse registration unless a true translation is also furnished.
(D) The document must be entirely re-written in the official language of the specific district.

Ans :

(C) The Registering Officer can refuse registration unless a true translation is also furnished.
The registration process is meant to create a clear and understandable public record. If a document is in a language that is not prevalent in the district, it defeats this purpose. Therefore, the Registering Officer has the authority to refuse registration until the presenter provides an accurate translation into a commonly used local language, along with a true copy.

Oct/Nov 2019

62. Based on this, what is the maximum possible time from execution within which a document can be presented for registration with a penalty?
Source: "According to Section 23 of The Registration Act, 1908, any document other than a will has to be presented for registration within four months from the date of its execution. ...If the delay in presentation of the document does not exceed a subsequent period of four months, then the parties to the agreement can apply to the Registrar. The Registrar may on payment of a fine...admit the document for registration."
(A) Four months.
(B) Six months.
(C) Eight months.
(D) Twelve months.

Ans :

(C) Eight months.
The source specifies an initial, standard period of four months for presentation. It then allows for a discretionary extension for a "subsequent period of four months." Therefore, the total maximum period from the date of execution to present the document for registration, subject to the Registrar's approval and payment of a fine, is the initial four months plus the additional four months, totaling eight months.

May/June 2009

63. For how many years is a property title search typically required to be conducted at the Sub-Registrar's office to verify if the title is clear and marketable?
(A) 30 years
(B) 10 years
(C) 13 years
(D) 20 years

Ans :

(A) 30 years
To establish a clear chain of title and ensure there are no hidden encumbrances or claims from the past, a long-period search of public records is necessary. The standard practice mentioned for a thorough title investigation is to conduct a search of the records at the relevant Sub-Registrar's offices for a period of 30 years.

Oct/Nov 2011

64. Which of the following is a suggested tip for detecting forged or fabricated title deeds?
(A) Ensure the stamp paper is physically mutilated or torn to make it appear authentically old.
(B) Verify the property schedule and registration details with the concerned Sub-Registrar Office.
(C) Confirm that the execution date of the document is prior to the cancellation date of the stamps.
(D) Accept a document even if a discrepancy exists between consideration and stamp duty paid.

Ans :

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Interest (SARFAESI) Act, 2002, provides a powerful tool for banks and financial institutions. It allows them, subject to certain conditions, to enforce their security interest and sell the mortgaged property to recover dues upon default, without having to go through the lengthy court process.

May/June 2012

49. What is the 'Right of Foreclosure' available to a mortgagee in certain types of mortgages?

(A) The right to unilaterally increase the interest rate on the loan upon any default by the borrower.

(B) The right to sue for a court decree that debars the mortgagor from redeeming the property.

(C) The right to take immediate physical possession of the property upon a single payment default.

(D) The right to sell the property in a public auction without providing any notice to the mortgagor.

Ans :

(B) The right to sue for a court decree that debars the mortgagor from redeeming the property.

The Right of Foreclosure is a legal remedy where, upon the mortgagor's default, the mortgagee can approach a court. If successful, the court issues a decree that permanently extinguishes the mortgagor's right to redeem (reclaim) the property by paying off the debt, effectively making the mortgagee the absolute owner, as seen in a mortgage by conditional sale.

Oct/Nov 2014

50. A borrower takes a loan from Bank A on March 10th by creating an equitable mortgage on his property. On April 15th of the same year, he takes another loan from Bank B by creating a registered mortgage on the same property. If the borrower defaults, which bank has the priority of charge?

(A) Bank A has priority, as its mortgage charge was created first in time.

(B) Bank B has priority, as a registered mortgage is legally superior to an equitable mortgage.

(C) Both banks will share equal, or pari passu, rights over the property's sale proceeds.

(D) The bank with the higher outstanding loan amount will be granted priority of charge.

Ans :

(A) Bank A has priority, as its mortgage charge was created first in time.

The fundamental principle of priority is "qui prior est tempore, potior est jure," which means "he who is first in time is better in law." An equitable mortgage does not have inferior rights to a registered mortgage. Since Bank A's equitable mortgage was created before Bank B's registered mortgage, Bank A has the first charge on the property.

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May/June 2019

51. When determining priority between two separate registered mortgages on the same property, what is the deciding factor?

(A) The date on which the registration process for each mortgage deed is officially completed.

(B) The respective loan amounts of the two competing mortgages, with the larger loan having priority.

(C) The date of execution of the mortgage deeds, if they are registered within the statutory four-month period.

(D) The date on which the respective loan amounts were fully disbursed to the borrower.

Ans :

(C) The date of execution of the mortgage deeds, if they are registered within the statutory four-month period.

For registered mortgages, priority is not determined by when the registration is completed but by when the deed was executed (signed). The law provides a four-month window for registration. As long as the deed is registered within this period, its legal effect, including its priority, relates back to the date of its execution.

Oct/Nov 2006

52. When a property's tenure is 'freehold', what does this imply about the owner's rights and obligations?

(A) The owner holds the land for a specific, limited period as per the terms of a lease deed.

(B) The owner requires the explicit consent of the government for any sale or transfer of the property.

(C) The owner is legally prohibited from mortgaging the property to any financial institution.

The table clearly outlines the fees for different types of transactions. The closure of a loan corresponds to the "Satisfaction of any existing security interest," which is filed using FORM II. According to the 'Amount of fee' column for this transaction (S.No 2), the fee is 'Free' as per the CERSAI circular dated 01.02.2016.

May/June 2020

69. A bank is processing a home loan of ₹4.5 Lakh. What is the applicable fee for the creation of a security interest by way of mortgage to be filed with CERSAI using FORM I?

(A) ₹100
(B) ₹500
(C) ₹50
(D) Free

Ans :

(C) ₹50
The CERSAI fee table for FORM I specifies a tiered fee structure based on the loan amount. For a loan above ₹5 Lakh, the fee is ₹100. For a loan up to ₹5 Lakh, the fee is ₹50. Since the loan amount in this case is ₹4.5 Lakh, which is within the 'upto ₹5 Lakh' category, the applicable fee is ₹50.

Oct/Nov 2015

70. In the context of post-sanction monitoring, what is the purpose of seeking a waiver for incomplete documentation?

(A) To permanently ignore the legal requirement for submitting the missing document.
(B) To authorize disbursement while allowing a temporary period to complete documentation.
(C) To legally transfer the responsibility of documentation from the bank to the borrower.
(D) To immediately cancel the loan sanction due to non-compliance with documentation norms.

Ans :

(B) To authorize disbursement while allowing a temporary period to complete documentation.
A waiver for incomplete documentation is not a permanent exemption. It is a temporary, risk-assessed decision by a higher authority to proceed with disbursement, with the understanding that the missing document will be obtained within a stipulated timeframe. This is often done to avoid delaying the transaction for a minor, rectifiable documentation gap.

May/June 2013

71. Which of the following is NOT listed as a routine check performed by the credit administration department during post-sanction monitoring?

(A) Checking that the sanction letter is complete and signed by authorized officials.
(B) Checking that the mandatory property insurance policy is in place and active.
(C) Ensuring that all executed documents are complete with no blank spaces left.
(D) Verifying the applicant's social media profiles for lifestyle inconsistencies.

Ans :

(D) Verifying the applicant's social media profiles for lifestyle inconsistencies.
The routine checks performed by the credit administration department are formal and directly related to the loan contract and security. These include verifying the completeness of the sanction letter, ensuring all documents are properly executed, and confirming that critical requirements like insurance are met. Verifying social media profiles is not part of this formal, routine checklist.

Oct/Nov 2021

72. During the post-sanction monitoring phase, what is the recommended action regarding the encumbrance certificate?

(A) A fresh encumbrance certificate should be obtained annually or periodically.
(B) It should be obtained only once at the time of the initial loan sanction.
(C) It is not required at all after the loan amount has been fully disbursed.
(D) It should be obtained every month for the entire duration of the loan.

Ans :

(A) A fresh encumbrance certificate should be obtained annually or periodically.
Post-sanction monitoring involves ensuring the security remains unencumbered throughout the loan's life. Obtaining a fresh encumbrance certificate periodically (e.g., annually) allows the bank to verify that no new charges or liens have been created on the property by the borrower with other parties, which could dilute the bank's security interest.

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(D) Statement I is incorrect, and Statement II is correct.

Ans :

(B) Both Statement I and Statement II are incorrect.
Statement I is incorrect because only original title deeds are considered documents of title; certified copies are accepted only in exceptional cases with conclusive proof of loss of the original. Statement II is also incorrect as government dues (like land revenue and taxes) have statutory priority, meaning the government can claim its dues first from the property.

May/June 2018

57. Which of the following points should be covered in a specific and categorical opinion from an advocate on a property's title?
i. Whether documents are complete and convey a clear, absolute, marketable title.
ii. Whether the property is unencumbered.
iii. Whether the persons creating the charge are legally capable of doing so.
iv. The current market value of the property.
v. Whether the property is subject to any tenancy law affecting the bank's rights.
(A) (i), (ii), (iii), (iv)
(B) (i), (iii), (iv), (v)
(C) (i), (ii), (iii), (v)
(D) (ii), (iii), (iv), (v)

Ans :

(C) (i), (ii), (iii), (v)
An advocate's opinion focuses on the legal aspects of the title and security. This includes the completeness and quality of the title, the absence of prior charges (encumbrances), the legal capacity of the borrower to mortgage, and any legal impediments like tenancy laws. The market value (iv) is determined by a technical valuer, not the advocate.

Oct/Nov 2016

58. What is the primary purpose of registering documents like a sale deed?
(A) For conservation of evidence, assurance of title, and prevention of fraudulent transactions.
(B) To formally determine the official market value of the property for tax purposes.
(C) To calculate the precise capital gains tax that is payable by the seller of the property.
(D) To act as a prerequisite for obtaining a home loan from any financial institution.

Ans :

(A) For conservation of evidence, assurance of title, and prevention of fraudulent transactions.
The registration of property documents serves several critical legal functions. It creates a permanent, public record of the transaction (conservation of evidence), gives the owner a higher degree of certainty about their ownership (assurance of title), and helps prevent fraudulent transactions by making the ownership details publicly verifiable, thereby protecting potential buyers.

May/June 2014

59. Which of the following transactions of immovable properties is NOT listed as requiring compulsory registration?
(A) Gift of a property.
(B) Lease of immovable property for a term exceeding one year.
(C) Instruments creating a right in immovable property valued at more than one hundred rupees.
(D) Lease of immovable property for a term of six months.

Ans :

(D) Lease of immovable property for a term of six months.
The law mandates compulsory registration for transactions that create significant, long-term rights in immovable property. This includes gifts, leases for a term longer than one year, and any instrument creating a right in a property worth over ₹100. A short-term lease of six months does not fall under the compulsory registration requirement.

Oct/Nov 2007

60. In Maharashtra, what is the approximate registration fee for transactions like conveyance or sale, subject to a maximum limit?
(A) Approximately 0.5% of the market value, with a maximum cap of ₹15,000.
(B) Approximately 1% of the market value, with a maximum cap of ₹30,000.
(C) A single flat fee of ₹25,000 regardless of the property's market value.
(D) Approximately 2% of the market value, with no maximum fee limit applicable.

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(D) The owner is the absolute owner and is only liable for government rates and property taxes.

Ans :

(D) The owner is the absolute owner and is only liable for government rates and property taxes.
Freehold tenure represents the highest degree of property ownership. The owner holds the property in perpetuity and is considered the absolute owner. There is no superior landlord, and their primary obligation is limited to paying statutory dues like property taxes and other assessments to government and local authorities. They do not need external consent for transfers.

May/June 2021

53. Which of the following is NOT a step mentioned for the valuation of land?
(A) Conducting a personal site inspection of the land and its surroundings.
(B) Making a comparison with recent sales of similar properties in the same neighborhood.
(C) Obtaining the income tax returns of the current owner or seller of the property.
(D) Making enquiries with local parties having good knowledge of land values in the area.

Ans :

(C) Obtaining the income tax returns of the current owner or seller of the property.
Land valuation focuses on determining the market price of the asset itself. This is achieved through physical inspection, comparing it with similar local property transactions (comparable sales method), and gathering local intelligence. The seller's personal income tax returns are irrelevant to establishing the market value of the land they are selling.

Oct/Nov 2010

54. Why must an allowance be made for the fact that a price realised under a forced sale often falls short of the real worth of a property?
(A) To provide a higher overall valuation to help the borrower secure a larger loan amount.
(B) To arrive at a more realistic and conservative value of the security for the bank's risk assessment.
(C) To account for the fact that forced sales are typically subject to significantly higher taxes.
(D) To reflect that buyers in forced sales are not legally required to pay stamp duty on the transaction.

Ans :

(B) To arrive at a more realistic and conservative value of the security for the bank's risk assessment.
A forced sale, or distress sale, happens under pressure and within a limited timeframe, which typically results in a lower selling price than a normal market transaction. Lenders must account for this by considering the 'forced sale value' in addition to the 'market value' to have a conservative and realistic assessment of what they could recover if they had to sell the security.

May/June 2005

55. What constitutes a good 'root of title' for a property?
(A) Any document that is at least 50 years old, regardless of its specific content or clarity.
(B) A recently issued certified copy of the original title deed obtained from the Sub-Registrar.
(C) The latest property tax receipt that shows the current registered owner's name and address.
(D) A document dealing with the whole interest, adequately describing the property, and raising no doubts.

Ans :

(D) A document dealing with the whole interest, adequately describing the property, and raising no doubts.
A 'root of title' is a foundational document in the chain of ownership that is sufficiently old and clear, making it unnecessary to trace the history further back. A good root of title must comprehensively deal with the entire legal and equitable ownership, clearly describe the property, and be free of any ambiguities or issues that cast doubt on the title's validity.

Oct/Nov 2022

56. Statement I: Certified copies of title deeds are generally acceptable as documents of title for creating a mortgage.
Statement II: A bank's mortgage charge has priority over the Government's right to recover outstanding land revenue from the borrower.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, and Statement II is incorrect.

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(B) Verify the property schedule and registration details with the concerned Sub-Registrar Office.
A key method to detect forgery is to cross-verify the details in the document with official records. This involves checking if the property description (schedule) in the deed matches the actual property and, most importantly, confirming its registration details with the Sub-Registrar's office where it was supposedly registered. Any discrepancy is a major red flag for fraud.

May/June 2010

65. What is the primary objective of the Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI)?
(A) To provide home loans directly to customers at interest rates lower than commercial banks.
(B) To maintain and operate a central registration system for security interests on properties.
(C) To act as an official appellate authority for disputes arising between banks and borrowers.
(D) To conduct the official valuation of all properties that are financed by banks across India.

Ans :

(B) To maintain and operate a central registration system for security interests on properties.
CERSAI was established under the SARFAESI Act with the specific goal of creating a central, online registry of security interests on properties. This helps prevent fraud, such as a single property being mortgaged with multiple lenders simultaneously, by allowing any person or institution to search the registry and check for existing encumbrances before extending credit.

Oct/Nov 2024

66. What is the mandatory timeline for the online registration of an equitable mortgage with CERSAI after its creation?
(A) Within 30 days.
(B) Within 7 days.
(C) Within 60 days.
(D) Within 90 days.

Ans :

(A) Within 30 days.
To ensure the CERSAI registry is updated promptly and remains an effective tool, the law mandates a strict timeline for registration. The creation of an equitable mortgage must be registered with CERSAI online within 30 days from the date of the transaction. Delays beyond this period are subject to penalties or require special condonation.

May/June 2017

67. A delay in CERSAI registration of more than 60 days requires condonation from which authority as per the SARFAESI Act?
(A) The Reserve Bank of India.
(B) The individual bank's board of directors.
(C) The Central Government.
(D) The State Government where the property is located.

Ans :

(C) The Central Government.
While the Registrar of CERSAI has the discretion to permit registration with a penalty for delays up to 60 days, any delay beyond this period is a more serious compliance lapse. As stipulated by the SARFAESI Act, condonation for such significant delays can only be granted by the Central Government, for which banks can apply through the CERSAI portal.

Oct/Nov 2005

68. Based on the table, what is the CERSAI fee for closing a home loan of ₹25 Lakh, which involves filing for satisfaction of the security interest?

S.No	Nature of transaction	Form No	Amount of fee
1.	Creation/ modification of security interest	FORM I	₹100 for loan > ₹5 Lakh. ₹50 for loan upto ₹5 Lakh
2.	Satisfaction of any existing security interest	FORM II	Free

(A) ₹100
(B) ₹50
(C) ₹500
(D) Free

Ans :

(D) Free

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(A) The bank is legally permitted to retain the title documents for a further period of one year.
(B) The borrower is required to pay a substantial renewal fee to keep their account active.
(C) The lender's charge is closed, and the original title documents can be returned to the borrower.
(D) The bank automatically offers a new, pre-approved top-up loan to the borrower.

Ans :

(C) The lender's charge is closed, and the original title documents can be returned to the borrower.
Once the borrower has completely paid off the outstanding loan amount, along with any accrued interest and other charges, their liability to the bank is extinguished. Consequently, the bank's charge (mortgage) on the property is closed, and the bank is obligated to return the original title documents held as security to the borrower.

Oct/Nov 2013

78. Why is a loan for a property bought purely for investment purposes considered to have a higher risk?
(A) Because investment properties are often located in speculative or high-risk geographical areas.
(B) Because tax laws provide fewer deductions and benefits for investment properties compared to self-occupied ones.
(C) Because such properties are often not eligible for standard home insurance policies, increasing asset risk.
(D) Because the borrower's repayment commitment is considered weaker than for a primary residence.

Ans :

(D) Because the borrower's repayment commitment is considered weaker than for a primary residence.
A loan for a self-occupied property has an emotional and personal attachment, which strengthens the borrower's commitment to repay. An investment property is a financial asset. If its value depreciates or it fails to generate expected returns, the borrower might be more inclined to default, making the loan inherently riskier from the lender's perspective.

May/June 2015

79. The home loan market credit deployment saw a significant increase between October 2005 and March 2021. What was the approximate credit deployment in March 2021?
(A) ₹15,61,913 Crore
(B) ₹1,53,267 Crore
(C) ₹25 Lakh
(D) ₹110 Crore

Ans :

(A) ₹15,61,913 Crore
The text highlights the massive growth in the home loan market to contextualize the increasing risk of frauds. It provides specific data points, stating that credit deployment grew from ₹1,53,267 Crore in October 2005 to approximately ₹15,61,913 Crore in March 2021, indicating a more than tenfold increase.

Oct/Nov 2012

80. A bank official receives an application with income documents that seem unusually high for the applicant's profile. The salary slip format looks slightly different from others from the same company. Which type of fraud should the official be alert to, and what is a suggested mitigation step?
(A) Fraud: Over-valuation; Mitigation: Visit the property.
(B) Fraud: Fabrication of Income Documents; Mitigation: Verify salary slips with the employer.
(C) Fraud: Forged Title Documents; Mitigation: Verify on CERSAI website.
(D) Fraud: Multiple Financing; Mitigation: Insist on original title deeds.

Ans :

(B) Fraud: Fabrication of Income Documents; Mitigation: Verify salary slips with the employer.
The scenario points towards discrepancies in income documents, a classic indicator of fabricated income proof. To mitigate this risk, the suggested and most direct course of action is to contact the applicant's purported employer to independently verify the authenticity of the salary slip and confirm the employment and salary details provided.

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May/June 2024

73. Under what primary conditions is a restructuring of a home loan considered?
(A) When the borrower's integrity is doubted and they are classified as a wilful defaulter.
(B) When the property value has appreciated and the borrower wants a larger top-up loan.
(C) When the borrower's integrity is not doubted, but their repayment ability is temporarily impaired.
(D) When the bank unilaterally decides to increase the interest rate applicable to the loan.

Ans :

(C) When the borrower's integrity is not doubted, but their repayment ability is temporarily impaired.
Restructuring is a supportive measure, not a punitive one. It is considered for genuine borrowers who have a clear willingness to repay but are facing temporary financial hardship that affects their ability to service the existing EMI. It is not an option for wilful defaulters who have the capacity to pay but choose not to.

Oct/Nov 2008

74. Which of the following circumstances may be considered for restructuring a home loan?
i. A major illness in the family requiring significant funds.
ii. A salaried borrower on 'loss of pay' due to a strike.
iii. Delayed completion of the housing project.
iv. The borrower is identified as a wilful defaulter.
(A) (i), (ii), and (iii)
(B) (i), (ii), and (iv)
(C) (i), (iii), and (iv)
(D) (ii), (iii), and (iv)

Ans :

(A) (i), (ii), and (iii)
Restructuring is intended for borrowers facing genuine difficulties. A major illness, temporary loss of pay due to external factors like a strike, or a delay in project completion are all valid reasons that impair repayment capacity without questioning the borrower's intent. Wilful defaulters, by definition, are not eligible for such supportive restructuring programs.

May/June 2006

75. Which of the following is NOT a parameter mentioned for the annual review of a home loan's credit rating?
(A) Record of repayment during the past 12 months.
(B) Percentage of security coverage of the outstanding loan.
(C) Liquidity of the borrower in terms of deposits with the financing institution.
(D) The borrower's current marital status.

Ans :

(D) The borrower's current marital status.
The annual credit rating review focuses on factors that affect the loan's risk profile. This includes the borrower's repayment track record, the value of the security relative to the loan balance, and the borrower's overall financial health, including their liquidity. The borrower's marital status is a demographic detail and not a dynamic parameter for an annual risk review.

Oct/Nov 2017

76. When financing the purchase of an old property, what is the purpose of obtaining a structural condition certificate from a Chartered Engineer?
(A) To determine the property's precise current market value for calculating the loan amount.
(B) To verify that the residual life of the property is adequate to cover the entire loan period.
(C) To get a detailed cost estimate for renovating and upgrading the property's interiors.
(D) To confirm the name and credentials of the original builder who constructed the property.

Ans :

(B) To verify that the residual life of the property is adequate to cover the entire loan period.
For an old property, the bank's security is tied to the building's structural integrity and longevity. A Chartered Engineer's certificate assesses the building's condition and estimates its remaining useful life. This is crucial for the lender to ensure that the property will not become dilapidated or worthless before the loan is fully repaid.

May/June 2008

77. What happens upon the final repayment of a home loan, including all dues?

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Ans :

(B) The mortgagor binds himself personally to pay the mortgage money and is liable for the debt. A defining characteristic of a simple mortgage is the personal covenant from the mortgagor. The borrower personally promises to repay the loan amount. This personal liability allows the lender (mortgagee) to sue the borrower directly for the debt, in addition to having the right to cause the mortgaged property to be sold through a court process.

May/June 2023

45. A Mortgage by Deposit of Title Deeds is legally valid only if the deposit of documents is made in specific 'notified towns'. Which of the following cities are mentioned as original notified towns?
(A) Delhi, Bengaluru, and Hyderabad.
(B) Pune, Ahmedabad, and Jaipur.
(C) Kolkata, Chennai, and Mumbai.
(D) Lucknow, Patna, and Bhopal.

Ans :

(C) Kolkata, Chennai, and Mumbai.
The Transfer of Property Act specifies that for a Mortgage by Deposit of Title Deeds to be valid, the physical deposit must occur within the geographical limits of certain towns notified by the state government. The Act originally named the presidency towns of Kolkata, Chennai, and Mumbai as locations where such mortgages could be created.

Oct/Nov 2018

46. Which of the following are essential requisites for a valid "Mortgage by Deposit of Title Deeds"?
i. There must be a debt, either existing or future.
ii. The deposit must be made in one of the notified towns.
iii. The deposit must be made with an intent to create a security.
iv. A mortgage deed must be registered.
(A) (i), (ii), and (iv)
(B) (i), (iii), and (iv)
(C) (ii), (iii), and (iv)
(D) (i), (ii), and (iii)

Ans :

(D) (i), (ii), and (iii)
The validity of an equitable mortgage rests on three core conditions: the existence of a debt to be secured, the physical deposit of title documents in a government-notified town, and a clear intention from the borrower that this deposit is for the purpose of creating a security. Unlike a simple mortgage, it does not require the registration of a mortgage deed.

May/June 2007

47. Based on the table, which right is NOT available to the mortgagee under either a Simple Mortgage or an Equitable Mortgage?

S.No.	Particulars	Simple Mortgage	Equitable Mortgage
(i)	To sue for personal liability	Yes	Yes
(ii)	To sue for sale of mortgaged property	Yes	Yes
(iii)	To sue for foreclosure	No	No

(A) The right to sue for foreclosure.
(B) The right to sue for personal liability.
(C) The right to sue for sale of the property.
(D) The right to hold the title deeds.

Ans :

(A) The right to sue for foreclosure.
The table clearly indicates that the mortgagee's right "To sue for foreclosure" is marked as 'No' for both Simple Mortgage and Equitable Mortgage. Foreclosure is a remedy associated with other types of mortgages, like mortgage by conditional sale, where the lender can obtain a court decree to debar the borrower from redeeming the property.

Oct/Nov 2025

48. Under the provisions of which Act can a bank, as a mortgagee holding a security interest, initiate action for enforcement of security without court intervention?
(A) The Registration Act, 1908
(B) The SARFAESI Act, 2002
(C) The Transfer of Property Act, 1882
(D) The Indian Contract Act, 1872

Ans :

(B) The SARFAESI Act, 2002
The Securitisation and Reconstruction of Financial Assets and Enforcement of Security

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May/June 2011

81. Which of the following is NOT a suggested mitigation measure against the fraud of "Loan amount disbursed by way of cheque/Demand drafts are encashed by third party/agents"?

(A) Credit the loan amount directly to the verified bank account of the builders or seller.
(B) Disburse the entire loan amount in cash directly to the borrower for them to pay the seller.
(C) Ascertain the correctness and ownership of the builder's account before crediting funds.
(D) Ensure funds are transferred electronically and directly to the end seller or builder.

Ans :

(B) Disburse the entire loan amount in cash directly to the borrower for them to pay the seller.
To prevent funds from being siphoned off by intermediaries, the key mitigation strategy is to ensure the loan amount reaches the intended end-beneficiary directly. This means crediting the builder's or seller's account. Disbursing the loan in cash to the borrower would significantly increase the risk of fund diversion and is contrary to prudent lending practices.

Oct/Nov 2020

82. To mitigate the risk of forged title documents, which two of the following verification steps are recommended?

i. Obtain a certificate from the panel lawyer about the genuineness of the documents.
ii. Verify previous mortgages/encumbrances by logging into the CERSAI website.
iii. Ask the borrower to provide a self-attested declaration of genuineness.
iv. Rely solely on the coloured photocopy of the documents.

(A) (i) and (ii)
(B) (i) and (iii)
(C) (ii) and (iv)
(D) (iii) and (iv)

Ans :

(A) (i) and (ii)
Combating title deed fraud requires a two-pronged approach involving expert opinion and a technology-based check. Obtaining a genuineness certificate from a trusted panel lawyer provides a professional legal verification. Simultaneously, checking the CERSAI online registry is a crucial step to uncover any undisclosed prior mortgages on the property, which is a common fraud tactic.

May/June 2022

83. How is the fraud of "over-valuation of property" typically committed?

(A) By the borrower using fake identity documents and a false address to apply for the loan.
(B) By the borrower selling the property to another person without repaying the outstanding loan.
(C) By the borrower colluding with the builder or valuer to artificially inflate the property's value.
(D) By the borrower taking multiple loans on the same property from different financial institutions.

Ans :

(C) By the borrower colluding with the builder or valuer to artificially inflate the property's value.
Over-valuation fraud is a conspiracy to secure a higher loan amount than what is justified by the property's actual worth. It involves the borrower, in connivance with the seller/builder and/or a dishonest valuer, artificially inflating the property's price on paper by including non-existent amenities or exaggerated costs, thus misleading the lender.

Oct/Nov 2023

84. What is a key mitigation strategy suggested to counter the fraud of 'Multiple Financing' where fake documents are used at different banks?

(A) Conducting continuous and intrusive monitoring of the borrower's personal bank account.
(B) Making the final payment directly to the seller in cash in the case of a property purchase.
(C) Verifying the borrower's salary slips and income details directly with their employer.
(D) Tracking and sharing information among lenders about blacklisted builders and developers.

Ans :

(D) Tracking and sharing information among lenders about blacklisted builders and developers.
Multiple financing often involves repeat offenders, including unscrupulous builders or developers. A crucial systemic mitigation is inter-lender cooperation. By sharing data on

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May/June 2007

14. How is the interest paid on a housing loan during the pre-construction period treated for tax deduction purposes?
(A) It is considered a capital expense and is not eligible for any tax deduction at all.
(B) It can be claimed as a lump-sum deduction in the single financial year construction is completed.
(C) It is added to the property's cost basis and can only be claimed as a capital loss upon its sale.
(D) It is deductible in 5 equal yearly instalments starting from the year of completion.

Ans :

(D) It is deductible in 5 equal yearly instalments starting from the year of completion.
The tax law provides a specific mechanism for pre-construction interest. This interest is aggregated and allowed to be claimed as a tax deduction in 5 equal yearly instalments. The claim period begins from the financial year in which the house purchase or construction is completed, subject to the overall annual limit for interest deduction.

Oct/Nov 2018

15. For a self-occupied property, what is the Net Annual Value (NAV) as per the computation format provided?
(A) Considered to be 'Nil' for tax computation purposes.
(B) Calculated as being equal to the municipal taxes paid during the year.
(C) Calculated as a standard 30% of the property's Gross Annual Value.
(D) Set as being equal to the interest paid on the borrowed capital.

Ans :

(A) Considered to be 'Nil' for tax computation purposes.
The table for "Computation of income from self-occupied property" clearly shows that the Gross Annual Value (GAV) is taken as Nil. Since municipal taxes paid are also deducted from GAV to arrive at Net Annual Value (NAV), and both are Nil, the resulting NAV for a self-occupied property is always Nil for tax computation purposes.

May/June 2023

16. What is the standard deduction allowed under Section 24(a) from the Net Annual Value (NAV) of a house property?
(A) 50% of NAV
(B) 30% of NAV
(C) A fixed amount of ₹30,000
(D) The actual amount spent on repairs

Ans :

(B) 30% of NAV
Section 24(a) of the Income-tax Act provides for a standard deduction from the Net Annual Value (NAV) of a property. This deduction is a flat 30% of the NAV and is meant to cover expenses like repairs and maintenance, irrespective of the actual amount spent. For a self-occupied property, since NAV is Nil, this deduction is also Nil.

Oct/Nov 2014

17. The final "Income from house property" for a self-occupied property with a housing loan will be:
(A) Always positive.
(B) Either Nil or a negative value (loss).
(C) Always Nil.
(D) Equal to the principal repaid during the year.

Ans :

(B) Either Nil or a negative value (loss).
For a self-occupied property, the Net Annual Value is Nil. The only deduction applicable is the interest on the housing loan under Section 24(b). If there is no loan, the income is Nil. If there is a loan, the income becomes a negative figure, equivalent to the interest paid (up to the prescribed limit), representing a loss.

May/June 2016

18. What is the maximum tax deduction allowed for principal repayment of a home loan and other specified investments under Section 80C of the Income-tax Act?
(A) ₹1,50,000
(B) ₹2,00,000
(C) ₹1,00,000
(D) ₹50,000

Ans :

(A) ₹1,50,000
Section 80C provides a deduction from the assessee's gross total income for various

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The assertion is a correct statement of law. A Power of Attorney, which is a form of agency, is terminated by the death of the principal. The reason provides the correct legal logic: the agent's power to act is solely delegated by the principal, and once the principal is deceased, the source of that authority ceases to exist.

May/June 2007

89. Which of the following pairs incorrectly matches the document/process with its context in loan appraisal?

(A) Form No. 16 : Income proof for salaried persons.
(B) Search Report : Obtained from bank's advocate for title verification.
(C) RERA approval : Required for agricultural land conversion.
(D) Patta : A land deed that is a must if the parent sale deed is not available.

Ans :

(C) RERA approval : Required for agricultural land conversion.
RERA (Real Estate Regulatory Authority) approval is required for housing projects to ensure they comply with the regulations governing real estate development. The conversion of agricultural land to non-agricultural use requires a separate 'relative order' from the relevant revenue authorities, not a RERA approval. The other pairs are correctly matched.

Oct/Nov 2025

90. All of the following are typically included in the cost assessment for a loan to construct a house EXCEPT:

(A) Cost of semi-finished flat
(B) Purchase Price of Plot
(C) Architect's fees
(D) Cost of construction

Ans :

(A) Cost of semi-finished flat
The cost components for constructing a new house from scratch include the cost of the land (plot), fees for professionals like architects, and the actual cost of building the structure. The 'Cost of a semi-finished flat' is a component assessed when the loan is for the purchase of a flat from a builder, not for self-construction of a house.

May/June 2012

91. Arrange the following steps in the lender's appraisal procedure in the correct chronological sequence:

1. Disbursement of loan amount.
2. Obtention of legal opinion on property title.
3. Submission of application form and initial documents.
4. Calculation of eligible loan amount based on income and property cost.

(A) Calculation of eligible loan amount based on income and property cost.
(B) Obtention of legal opinion on property title.
(C) Submission of application form and initial documents.
(D) 3, 2, 4, 1

Ans :

(D) 3, 2, 4, 1
The process begins with the customer submitting the application form (3). The bank then conducts due diligence, including getting a legal opinion on the security (2). Based on verified inputs, it calculates the eligible loan amount (4). Only after all appraisal, sanction, and documentation formalities are complete does the final step of disbursement (1) occur.

Oct/Nov 2014

92. While accepting a Power of Attorney executed by a Non-Resident Indian (NRI), what is the most critical verification the bank must perform regarding the principal?

(A) Verifying the validity and current status of the principal's work visa.
(B) Ensuring the principal is alive on the date the mortgage is being created.
(C) Checking the principal's credit score in their current country of residence.
(D) Confirming the details of the principal's overseas employment contract.

Ans :

(B) Ensuring the principal is alive on the date the mortgage is being created.
While other details might be relevant, the most critical and non-negotiable verification is to ensure the principal is alive when the mortgage is being created. A Power of Attorney automatically becomes void upon the death of the principal. Any action taken by the agent after the principal's

NODIA

fraudulent builders and developers who sell the same property to multiple buyers, banks and Housing Finance Companies (HFCs) can create a shared negative list, preventing them from defrauding other institutions.

May/June 2016

85. Which fraud type is correctly paired with its description?

(A) Mis-representation of end use : The borrower uses a single property to get loans from multiple banks.

(B) Cancellation of booking : The property is sold through duplicate deeds while the original is with the bank.

(C) Multiple financing : Fake documents are produced to different banks/HFCs for the same property.

(D) Sale of property by loanee : The borrower takes a refund from the builder after the bank disburses the initial loan.

Ans :

(C) Multiple financing : Fake documents are produced to different banks/HFCs for the same property.

'Multiple financing' specifically refers to the fraudulent act of using one property as collateral to obtain loans from several different lenders simultaneously, typically by using forged or duplicate sets of property documents. The other options incorrectly match the fraud type with its description.

Oct/Nov 2009

86. What is the primary risk in the fraud involving 'Cancellation of booking' of a flat?

(A) The builder uses substandard construction materials, causing the property value to diminish rapidly.

(B) The bank's disbursed loan is refunded to the borrower, who then absconds with the funds.

(C) The borrower forges the cancellation documents in order to fraudulently claim property insurance.

(D) The builder cancels the booking and sells the same flat to another buyer at a much higher price.

Ans :

(B) The bank's disbursed loan is refunded to the borrower, who then absconds with the funds.

This fraud is a form of collusion. The bank disburses the loan amount to the builder. Then, the borrower and builder cancel the booking agreement. Instead of returning the money to the bank, the builder refunds it to the borrower. The borrower then disappears with the funds, leaving the bank with a loan but no underlying asset.

May/June 2023

87. A bank is financing a house construction loan with stage-wise disbursement. To prevent mis-representation of the end use of funds, what is the most critical step the bank must take before releasing each subsequent stage of the loan?

(A) Obtain a new, updated credit bureau report of the borrower.

(B) Re-verify the borrower's current income and employment with their employer.

(C) Increase the interest rate for the subsequent disbursement as a risk measure.

(D) Conduct a physical inspection to verify use of the previously disbursed amount.

Ans :

(D) Conduct a physical inspection to verify use of the previously disbursed amount.

For construction loans, ensuring proper end-use is paramount. The most effective control is to link disbursements to construction progress. Before releasing any new installment, a bank official or approved engineer must conduct a site inspection to verify that the funds disbursed previously have been utilized appropriately and the construction has reached the required stage.

Oct/Nov 2018

88. Assertion (A): A Power of Attorney becomes automatically cancelled on the death of the Principal.

Reason (R): The agent's authority is derived directly from the principal, and this authority cannot persist after the principal's demise.

(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).

(B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).

(C) (A) is true, but (R) is false.

(D) (A) is false, but (R) is true.

Ans :

(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).

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Ans :

(B) Monthly simple interest paid on the disbursed loan portion until the full loan is disbursed.
In cases of partial disbursement, like for an under-construction property, the borrower is not required to pay the full EMI immediately. Instead, they pay 'Pre-EMI interest,' which is the simple interest calculated only on the amount that has been actually disbursed by the bank, until the final disbursement is made and the regular EMIs commence.

May/June 2005

97. Which of the following statements regarding the registration of documents is incorrect?
(A) The Bombay Stamp Act (BSA), 1958, is applicable in Maharashtra for levying stamp duty.
(B) Stamp duty is payable on transactions, not on instruments.
(C) Instruments which are not properly stamped are not admitted in evidence.
(D) Registration helps an intending purchaser to know if the property is free from encumbrance.

Ans :

(B) Stamp duty is payable on transactions, not on instruments.
The law on stamp duty is very specific. The duty is levied on the 'instrument' (the legal document like a sale deed or agreement) and not on the underlying 'transaction' itself. The instrument is the evidence of the transaction, and it is this document that must be properly stamped to be legally valid and admissible in court.

Oct/Nov 2022

98. An applicant has taken a home loan for a property purely for investment, hoping for value appreciation. The bank's credit officer notes this in the appraisal. What should be the bank's approach in this scenario?
(A) Consider it a higher-risk loan and apply tighter norms like a higher margin or security.
(B) Reject the loan application immediately, as investment-purpose loans are not permitted.
(C) Treat it as a normal home loan with all the standard margin and security requirements.
(D) Offer a lower interest rate to encourage and promote property investment activities.

Ans :

(A) Consider it a higher-risk loan and apply tighter norms like a higher margin or security.
A loan for an investment property carries a higher inherent risk compared to a loan for a self-occupied house because the borrower's repayment commitment may be weaker. Prudent banking practice requires recognizing this higher risk and mitigating it by applying stricter lending norms, such as insisting on a higher down payment (margin) or seeking additional collateral/guarantee.

May/June 2018

99. What is the penalty for non-registration of a charge with CERSAI within the stipulated time?
(A) The underlying loan agreement between the bank and borrower becomes legally void and unenforceable.
(B) The interest rate is automatically increased by a penal rate of 2% p.a. until the registration is completed.
(C) It is treated as a default and is punishable with a fine of up to ₹5,000 for each day of delay.
(D) The bank's operating license can be suspended by the Reserve Bank of India for non-compliance.

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Ans :

(C) It is treated as a default and is punishable with a fine of up to ₹5,000 for each day of delay.
The requirement to register charges with CERSAI is a statutory mandate under the SARFAESI Act. Failure to comply within the specified timelines is not a minor lapse. The Act treats this non-registration as a default by the lender and imposes a significant monetary penalty, which can be up to ₹5,000 for each day the default continues.

Oct/Nov 2016

100. During post-sanction inspection, a bank official finds that the condition of the mortgaged property has significantly deteriorated. What should this finding immediately trigger?
(A) An automatic waiver of the next six EMIs to help the borrower with repair costs.
(B) An immediate offer for a top-up loan to the borrower to carry out necessary repairs.
(C) An immediate closure of the loan account and demand for full repayment of the outstanding.

(D) A full-scale review of the loan account to assess the increased risk to the security.

Ans :

(D) A full-scale review of the loan account to assess the increased risk to the security.
The property is the primary security for the loan, and its value and condition are critical to the bank's risk exposure. A significant deterioration in its condition impairs the value of the security. This is a major red flag that warrants an immediate and comprehensive review of the entire loan account to assess the increased risk and decide on corrective actions.

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CHAPTER 28

Housing Finance and Tax Planning

Oct/Nov 2023

1. According to the stated objectives, what is a primary goal for a reader studying the unit on housing finance and tax planning?

(A) To learn the comprehensive process of applying for a home loan from various financial institutions.

(B) To learn the use of tax benefits associated with housing finance to effectively reduce one's overall tax liability.

(C) To understand the complex legal framework and procedures governing property registration in India.

(D) To analyze the financial impact of interest rate fluctuations on the Equated Monthly Instalments (EMIs) of housing loans.

Ans :

(B) To learn the use of tax benefits associated with housing finance to effectively reduce one's overall tax liability.

The chapter's objectives explicitly state that upon reading, one will learn about the tax benefits available for housing finance and the use of these benefits to reduce one's tax liability. This focuses on the post-disbursement management of a loan's financial impact rather than the application process or broader economic factors affecting loans.

May/June 2010

2. What is the primary reason cited for the introduction of tax concessions and waivers for housing and housing finance in Union Budgets?

(A) To counter the shortage of houses in India by encouraging the concept of home ownership.

(B) To directly increase the profitability and market share of housing finance companies.

(C) To specifically encourage foreign direct investment into the residential real estate sector.

(D) To simplify the complex process of income tax filing for all salaried individual taxpayers.

Ans :

(A) To counter the shortage of houses in India by encouraging the concept of home ownership.

The introduction clearly states that announcements have been made in Union Budgets for tax concessions and waivers to encourage housing and housing finance. The specified purpose for this encouragement is to counter the shortage of houses in India, making home ownership more accessible and financially attractive for taxpayers through these fiscal incentives.

Oct/Nov 2007

3. Under the Income-tax Act, 1961, which section provides for a tax deduction on the payment of interest on a home loan?

(A) Section 80C

(B) Section 80EE

(C) Section 24

(D) Section 80D

Ans :

(C) Section 24

The text explicitly categorizes the home loan tax benefits into three main sections. It specifies that the tax deduction on the payment of home loan interest is covered under Section 24 of the Income-tax Act. Section 80C relates to principal repayment, and Section 80EE pertains to an additional benefit for first-time home buyers.

May/June 2025

4. Which section of the Income-tax Act, 1961, allows for a tax deduction on the principal repayment component of a housing loan?

(A) Section 24(b)

(B) Section 80EE

(C) Section 24(a)

(D) Section 80C

Ans :

(D) Section 80C

The chapter introduces the key tax benefits available for housing finance and clearly states that the tax deduction for the principal

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death, including creating a mortgage, is legally invalid.

May/June 2019

93. Which of the following statements regarding the mortgage priority are correct?

i. An equitable mortgage always has inferior rights compared to a registered mortgage.
ii. Between two registered mortgages, priority is based on the date of execution, not registration.
iii. The institution in whose favor a mortgage is created first has the priority of charge.

(A) (i) and (ii)
(B) (i) and (iii)
(C) (ii) and (iii)
(D) All (i), (ii), and (iii)

Ans :

(C) (ii) and (iii)
Statement (i) is incorrect; an equitable mortgage does not have inferior rights. The principle of 'first in time, first in right' applies. Statement (iii) correctly states this general principle. Statement (ii) is also correct, as for registered documents, priority relates back to the date of execution, provided registration occurs within the statutory period.

Oct/Nov 2006

94. Based on this statement, what is the key difference between freehold and leasehold tenure?
Source: "In leasehold tenure, the land is held for the period and on the terms and conditions contained in an instrument called 'Deed of Lease'."

(A) Leasehold is for commercial properties, while freehold is exclusively for residential properties.
(B) Owners of leasehold property are completely exempt from paying any government taxes or rates.
(C) Leasehold property cannot be legally mortgaged to a bank or financial institution.
(D) Leasehold grants ownership for a limited period governed by a lease, unlike perpetual freehold.

Ans :

(D) Leasehold grants ownership for a limited period governed by a lease, unlike perpetual freehold.
The source directly states that in a leasehold tenure, the land is held for a specific "period" as defined in a "Deed of Lease." This contrasts with freehold tenure, which implies absolute and perpetual ownership. Therefore, the defining difference is the limited duration of ownership rights associated with a leasehold property.

May/June 2021

95. Match the CERSAI Form Number (List-I) with the corresponding transaction (List-II).

List-I
P. FORM I
Q. FORM II
R. FORM III
S. FORM IV

List-II
1. Particulars of securitisation or reconstruction
2. Satisfaction of an existing security interest
3. Creation or modification of security interest
4. Satisfaction of securitisation or reconstruction

(A) P-3, Q-2, R-1, S-4
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-3, R-4, S-1

Ans :

(A) P-3, Q-2, R-1, S-4
The CERSAI rules prescribe specific forms for each type of transaction filing. FORM I is used for creating or modifying a security interest (like a mortgage). FORM II is for satisfaction (closure) of that security interest. FORM III is for registering securitisation transactions, and FORM IV is for the satisfaction of those securitisation transactions.

Oct/Nov 2010

96. What is 'Pre-EMI interest'?

(A) A one-time processing fee that is paid before the Equated Monthly Instalment (EMI) starts.
(B) Monthly simple interest paid on the disbursed loan portion until the full loan is disbursed.
(C) An advance payment of the first three EMIs collected from the borrower at the time of sanction.
(D) The interest calculated on the total sanctioned loan amount from the date of the sanction letter.

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Ans :

(C) The financial year in which the purchase of the property or its construction is fully completed. The guidelines for claiming tax benefits are tied to the property's readiness. The deduction for interest under Section 24(b) can be claimed only from the financial year in which the purchase or construction of the property is completed. Interest paid during the construction phase (pre-construction interest) is treated separately and claimed later.

May/June 2012

10. If a housing loan is availed for the purpose of repair or renewal of a self-occupied property, what is the maximum interest deduction allowed under Section 24(b)?
(A) ₹30,000
(B) ₹2,00,000
(C) ₹1,50,000
(D) ₹50,000

Ans :

(A) ₹30,000
The purpose of the loan significantly impacts the deduction limit under Section 24(b). While loans for purchase or construction can qualify for a ₹2,00,000 deduction, the text specifies a lower limit if the loan is availed for repair or renewal of the property. In such cases, the maximum allowable interest deduction is restricted to ₹30,000.

Oct/Nov 2005

11. Which of the following statements regarding tax deduction for interest on a home loan for a property that is not self-occupied (i.e., rented out) is correct?
(A) The deduction for interest is strictly limited to a maximum amount of ₹2,00,000 annually.
(B) No deduction for the interest paid is permitted if the property is let out to tenants.
(C) The deduction for interest is granted only on a payment basis, not on an accrual basis.
(D) The entire interest amount can be claimed as a deduction without any statutory upper limit.

Ans :

(D) The entire interest amount can be claimed as a deduction without any statutory upper limit.
For a property that is let out (rented), the interest paid on the associated home loan can be fully deducted against the rental income earned. Unlike a self-occupied property, there is no upper statutory limit (like ₹2,00,000) on the amount of interest that can be claimed as a deduction.

May/June 2019

12. On what basis is the tax deduction for interest on a home loan under Section 24 claimable?
(A) On a payment basis, meaning when the interest is actually paid.
(B) On an accrual basis, meaning when the interest becomes due.
(C) On a hybrid basis, with 50% on payment and 50% on accrual.
(D) On a basis determined solely by the policies of the lending institution.

Ans :

(B) On an accrual basis, meaning when the interest becomes due.
The chapter highlights an important technical aspect of the interest deduction under Section 24. It is deductible on a payable basis, which means on an accrual basis. This implies that the interest for the financial year can be claimed as a deduction, regardless of whether it has been actually paid during that year.

Oct/Nov 2025

13. Mr. Anand took a home loan on April 1, 2014, for the construction of a house. The construction was completed on May 15, 2020. For the financial year 2020-21, what is the maximum interest deduction he can claim under Section 24(b) for this self-occupied property?
(A) ₹2,00,000
(B) ₹1,50,000
(C) ₹30,000
(D) Nil

Ans :

(C) ₹30,000
The loan was taken on April 1, 2014, so the construction should have been completed within 5 years from the end of FY 2014-15, i.e., by March 31, 2020. Since it was completed on May 15, 2020, the condition was not met. Therefore, the tax benefit under Section 24 is reduced from ₹2,00,000 to ₹30,000.

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repayment of a housing loan is governed by Section 80C. This section provides a deduction for various investments and payments, including the principal portion of a home loan EMI, subject to an overall limit.

Oct/Nov 2015

5. For a first-time home buyer, which section of the Income-tax Act provides an additional tax deduction over and above the standard deductions for interest and principal?
(A) Section 24
(B) Section 80C
(C) Section 80EE
(D) Section 80D

Ans :

(C) Section 80EE
The material specifies that an additional tax deduction is available specifically for first-time home buyers. This particular benefit, which is over and above the deductions available under Section 24 for interest and Section 80C for principal, is provided under Section 80EE of the Income-tax Act, subject to fulfillment of certain conditions regarding the loan and property.

May/June 2018

6. What is the maximum amount of deduction for interest on a housing loan that can be claimed under Section 24(b) for a self-occupied property, provided all conditions are met?
(A) ₹1,50,000
(B) ₹2,00,000
(C) ₹50,000
(D) ₹30,000

Ans :

(B) ₹2,00,000
Under Section 24(b) of the Income-tax Act, interest on a housing loan for a self-occupied property can be claimed as a deduction from income. The text specifies that this deduction is available up to a maximum of ₹2,00,000 per year, subject to the fulfillment of prescribed conditions, such as the loan being taken after April 1, 1999.

Oct/Nov 2009

7. To claim the full interest deduction of ₹2,00,000 under Section 24(b) for a self-occupied property, the loan must have been taken on or after which date?
(A) 1st April 2001
(B) 1st April 2005
(C) 1st April 1995
(D) 1st April 1999

Ans :

(D) 1st April 1999
One of the primary conditions for claiming the higher deduction limit of ₹2,00,000 for interest on a home loan under Section 24(b) is related to the timing of the loan. The text explicitly states that the loan must have been taken on or after 1st April 1999 for the assessee to be eligible for this specific limit.

May/June 2021

8. For a loan taken for the construction of a residential property, what is the maximum time frame allowed for the completion of construction from the date of raising the loan to be eligible for the full interest deduction under Section 24(b)?
(A) 5 Years
(B) 3 Years
(C) 7 Years
(D) 10 Years

Ans :

(A) 5 Years
The rules under Section 24(b) stipulate a specific timeline for construction projects. For a loan taken for construction, the construction must be completed within 5 years of raising the loan. Failure to meet this deadline results in a reduction of the eligible interest deduction, making this a critical condition for taxpayers to fulfill.

Oct/Nov 2016

9. In which financial year can a borrower first claim the deduction for interest on a housing loan taken for purchase or construction?
(A) The financial year when the housing loan is initially sanctioned by the lender.
(B) The financial year when the borrower makes the payment of the first Equated Monthly Instalment (EMI).
(C) The financial year in which the purchase of the property or its construction is fully completed.
(D) The financial year when at least 50% of the total sanctioned loan amount has been disbursed.

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payments and investments. The text states that the maximum tax deduction allowed under this section, which is an aggregate limit for all eligible items including home loan principal repayment, PPF, and others, is ₹1,50,000 per financial year.

Oct/Nov 2020

19. The tax deduction for principal repayment under Section 80C is available on what basis?

(A) On an accrual basis, depending on the specific year the principal was originally due.
(B) On an average basis, calculated by spreading the total principal over the loan tenure.
(C) On a payment basis, based on the amount actually paid during the financial year.
(D) On a final basis, claimable only after the entire loan has been fully repaid.

Ans :

(C) On a payment basis, based on the amount actually paid during the financial year.
Unlike the interest deduction under Section 24, the deduction for principal repayment under Section 80C is available on a payment basis. This means the assessee can claim a deduction for the amount of principal actually paid during the financial year, irrespective of the period to which that principal amount pertains.

May/June 2011

20. Besides principal repayment, which of the following housing-related expenses are also allowed as a tax deduction under Section 80C?

(A) Property insurance premiums.
(B) Society maintenance charges.
(C) Penal interest on delayed EMI payments.
(D) Stamp Duty and Registration Fee.

Ans :

(D) Stamp Duty and Registration Fee.
The chapter specifies that the scope of Section 80C extends beyond just the principal repayment. The amount paid as Stamp Duty and Registration Fee at the time of property purchase is also an eligible expense for deduction under Section 80C. This can be claimed in the year these expenses are incurred.

Oct/Nov 2012

21. Which of the following is NOT a valid condition for claiming deduction for principal repayment of a home loan under Section 80C?

(A) Construction of the property must be complete and a completion certificate received.
(B) No deduction is allowed for principal repaid during the property's construction phase.
(C) The property must be used for self-occupation only.
(D) The deduction can be claimed for more than one house property.

Ans :

(C) The property must be used for self-occupation only.
The text lists several conditions for claiming the Section 80C benefit. It explicitly states that the deduction is available whether the property is self-occupied or let out. Therefore, the statement that the property must be for self-occupation only is incorrect, as the benefit is applicable to both types of properties.

May/June 2015

22. Under what circumstance is the tax benefit availed under Section 80C for a house property reversed?

(A) If the property is sold within 3 years from the end of the financial year of possession.
(B) If the property is sold within 5 years from the end of the financial year of possession.
(C) If the property is rented out within 2 years of taking possession.
(D) If the loan is transferred to another bank within 5 years.

Ans :

(B) If the property is sold within 5 years from the end of the financial year of possession.
The tax benefit under Section 80C is subject to a lock-in period. The rules state that if a house property, for which this benefit was claimed, is sold within a period of 5 years from the end of the financial year of receiving possession, the previously claimed deductions are reversed and treated as income.

Oct/Nov 2013

23. An individual took possession of a house in June 2018 (FY 2018-19) and claimed a deduction of ₹1,20,000 under Section 80C in FY 2018-19. He sells the property in May 2022 (FY 2022-23). What is the tax consequence in FY 2022-23?

(A) No tax consequence arises as the mandatory 3-year holding period has been met.

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(B) A mandatory penalty of 10% on the claimed amount of ₹1,20,000 will be levied.
(C) The individual is barred from claiming any Section 80C deduction for the next 5 years.
(D) The claimed amount of ₹1,20,000 will be deemed as income and taxed in FY 2022-23.

Ans :

(D) The claimed amount of ₹1,20,000 will be deemed as income and taxed in FY 2022-23.
The property must be held for 5 years from the end of the FY of possession (end of FY 2018-19 is March 31, 2019). The 5-year period ends on March 31, 2024. Since the property was sold in May 2022, it is within this 5-year period. Consequently, the total deduction claimed earlier is reversed and becomes taxable income.

May/June 2008

24. What is the quantum of the additional deduction available to first-time home buyers under Section 80EE for interest paid on a home loan?
(A) ₹50,000
(B) ₹1,50,000
(C) ₹2,00,000
(D) ₹35,000

Ans :

(A) ₹50,000
Section 80EE offers a special benefit exclusively for first-time home buyers. The text specifies that the quantum of this deduction is ₹50,000 for the interest paid on the home loan. This deduction is available over and above the standard deductions provided under Section 24 and Section 80C, making it an additional tax-saving opportunity.

Oct/Nov 2017

25. The deduction under Section 80EE is available in addition to which other sections?
(A) Section 24 and Section 80D
(B) Section 80C and Section 80D
(C) Section 24 and Section 80C
(D) Section 80G and Section 80U

Ans :

(C) Section 24 and Section 80C
The benefit under Section 80EE is designed as an extra incentive. The chapter clearly states that this deduction is available over and above the deduction of Section 24 (for interest, up to ₹2,00,000) and Section 80C (for principal, up to ₹1,50,000). This positioning makes it particularly valuable for eligible first-time buyers in the initial years of their loan.

May/June 2006

26. Which of the following is a necessary condition for claiming the deduction under Section 80EE?
(A) The value of the property should be less than ₹50 Lakh.
(B) The home loan amount should not exceed ₹50 Lakh.
(C) The property must be located in a metropolitan city.
(D) The loan must be taken from a public sector bank only.

Ans :

(A) The value of the property should be less than ₹50 Lakh.
Section 80EE has specific financial criteria to target a particular segment of home buyers. One of the mandatory conditions listed is that the value of the property for which the loan has been taken should be less than ₹50 Lakh. This, along with the loan amount cap, defines the eligibility for this special benefit.

Oct/Nov 2008

27. To be eligible for the tax benefit under Section 80EE, the home loan amount should not exceed which of the following limits?
(A) ₹50 Lakh
(B) ₹45 Lakh
(C) ₹40 Lakh
(D) ₹35 Lakh

Ans :

(D) ₹35 Lakh
In addition to the property value cap, Section 80EE also imposes a limit on the loan amount itself. To qualify for this special deduction for first-time home buyers, the total home loan amount sanctioned must not exceed ₹35 Lakh. Both the property value and loan amount conditions must be satisfied simultaneously.

May/June 2024

28. For how long can a taxpayer claim the tax benefit under Section 80EE?
(A) For a maximum period of 5 years.
(B) Till the time the repayment of the loan continues.
(C) For the first year of loan repayment only.
(D) For a maximum period of 15 years.

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Ans :

(B) Till the time the repayment of the loan continues.

Unlike some deductions that are for a limited period, the benefit under Section 80EE is available for a longer duration. The text indicates that the tax benefit under this section can be claimed by the assessee every year until the repayment of the home loan continues, subject to the annual deduction limit of ₹50,000.

Oct/Nov 2021

29. Which of the following statements about the applicability of Section 80EE is incorrect?

(A) The deduction is only applicable on home loan paid for the first house property.
(B) The property in question can be either self-occupied or non-self-occupied.
(C) The taxpayer must reside in the property to claim this deduction.
(D) As on the date of loan sanction, the buyer must not own any other house.

Ans :

(C) The taxpayer must reside in the property to claim this deduction.

Eligibility for Section 80EE is not tied to the taxpayer's residence. The chapter later clarifies that it is not necessary to reside in the property to claim this deduction, meaning borrowers staying in rented accommodation can also claim it. The other statements about it being for the first property and applying to both self-occupied/non-self-occupied are correct.

May/June 2013

30. What is a key condition regarding property ownership at the time of loan sanction to be eligible for Section 80EE?

(A) The buyer must not own any other residential property within the same city limits.
(B) The buyer is permitted to own a commercial property but not another residential one.
(C) The buyer is permitted to own a property that has been acquired through inheritance.
(D) The buyer must not own any other residential house property at that time.

Ans :

(D) The buyer must not own any other residential house property at that time.

The "first-time home buyer" status is strictly defined for Section 80EE eligibility. A critical condition is that as on the date the home loan is sanctioned, the individual taxpayer must not own any other house. This ensures that the benefit is targeted exclusively at those who are purchasing their very first residential property.

Oct/Nov 2015

31. If an assessee claims a deduction for a certain amount of interest under Section 80EE, what is the rule regarding claiming that same interest amount under Section 24?

(A) The same amount cannot be claimed again under Section 24.
(B) The same amount can be claimed under both sections.
(C) 50% of the amount can be claimed again under Section 24.
(D) It can be claimed under Section 24 in the subsequent financial year.

Ans :

(A) The same amount cannot be claimed again under Section 24.

To prevent double-dipping on tax benefits, the law has a clear provision. The text explicitly states that the amount of interest for which a deduction is claimed under Section 80EE will not be eligible for a deduction again under Section 24 for the same amount of interest. The total interest deduction is capped.

May/June 2020

32. Who is eligible to claim the deduction under Section 80EE?

(A) Hindu Undivided Families (HUF) and their members are eligible.
(B) The deduction is available exclusively to individual taxpayers.
(C) Partnership firms and private or public limited companies are eligible.
(D) All categories of assessees, including HUFs and firms, are eligible.

Ans :

(B) The deduction is available exclusively to individual taxpayers.

The scope of Section 80EE is limited to a specific category of taxpayers. The chapter specifies that the deductions under this section can be claimed only by individual taxpayers. This benefit

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(B) No benefit is available to NRIs.
(C) ₹1.50 Lakh
(D) ₹2.00 Lakh

Ans :

(C) ₹1.50 Lakh
The tax benefits for home loans are extended to NRIs under certain conditions. The text states that, like a resident Indian, an NRI can avail a tax benefit on repayment of up to ₹1.50 Lakh on the principal component. This is the same limit available to residents under Section 80C.

May/June 2012

52. What is the maximum tax benefit an eligible NRI can claim on the interest component of a home loan for a self-occupied property?
(A) ₹1.50 Lakh
(B) The benefit is available only for let-out properties.
(C) ₹3.00 Lakh
(D) ₹2.00 Lakh

Ans :

(D) ₹2.00 Lakh
The rules for interest deduction under Section 24 are consistent for both residents and eligible NRIs. The chapter mentions that an NRI who repays a home loan is also eligible for a tax rebate, including up to ₹2.00 Lakh on the interest component, mirroring the benefit available to a resident Indian for a self-occupied property.

Oct/Nov 2025

53. An NRI has taken a home loan in India. His only source of income is salary earned abroad, which is not taxable in India. Can he claim a tax exemption on his home loan repayment in India?
(A) Yes, he can claim full benefits under the provisions of Section 24 and Section 80C.
(B) Yes, but the claim is restricted only to the interest component deduction under Section 24.
(C) No, he cannot claim any tax exemption as there is no taxable income in India.
(D) Yes, but the claim is restricted only to the principal component deduction under Section 80C.

Ans :

(C) No, he cannot claim any tax exemption as there is no taxable income in India.
Tax deductions can only be claimed against taxable income. The text clarifies that if an NRI's only income source is salary earned abroad and he is not taxable in India, he does not have an opportunity to claim the tax exemption. The deductions are meaningless without a corresponding taxable income in India to set them off against.

May/June 2007

54. Under what condition does an NRI become eligible to claim tax exemption for home loan repayment in India?
(A) If the loan is from an Indian bank.
(B) If the NRI earns additional taxable income from India.
(C) If the property is located in a metropolitan city.
(D) If the NRI visits India at least once a year.

Ans :

(B) If the NRI earns additional taxable income from India.
The ability for an NRI to claim tax benefits is contingent on having a tax liability in India. The chapter states that if an NRI earns additional taxable income from India, apart from their salary earned abroad, then they become eligible to claim the tax exemption for the home loan repayment as available to a resident.

NODIA

Oct/Nov 2018

55. Which of the following is NOT listed as a keyword in the chapter?
(A) Hindu Undivided Family (HUF)
(B) Non-resident Indian (NRI)
(C) Assessment Year (A.Y.)
(D) Equated Monthly Instalment (EMI)

Ans :

(D) Equated Monthly Instalment (EMI)
The "Keywords" section at the end of the chapter lists several important terms used throughout the text. It includes Hindu Undivided Family (HUF), Income Tax Return (ITR), Assessment Year (A.Y.), Financial Year (F.Y.), Tax implications, and Non-resident Indian (NRI). The term Equated Monthly Instalment (EMI) is not explicitly listed in this section.

May/June 2023

56. An individual took a loan of ₹25 Lakh for purchasing a flat for self-occupation on

(B) Only the Actual Rent received during the year.
(C) The higher of Reasonable Expected Rent or Actual Rent.
(D) Only the Reasonable Expected Rent of the property.

Ans :

(C) The higher of Reasonable Expected Rent or Actual Rent.
The determination of GAV follows a specific three-step process. Step 1 is to compute the Reasonable Expected Rent, and Step 2 is to compute the actual rent. Step 3, as stated in the text, is to compute the Gross Annual Value, which will be the higher of the amounts computed in Step 1 and Step 2.

May/June 2009

38. The "Reasonable Expected Rent" of a property is computed as the higher of which two values?
(A) Municipal Value and Standard Rent.
(B) Municipal Value and Fair Rent.
(C) Fair Rent and Standard Rent.
(D) Actual Rent and Municipal Value.

Ans :

(B) Municipal Value and Fair Rent.
The chapter defines the first step in calculating Gross Annual Value, which is to determine the Reasonable Expected Rent (RER). It specifies that the RER will be the higher of two metrics: the Municipal Value of the property (as determined by local authorities) and the Fair Rent of the property (rent of a similar property).

Oct/Nov 2019

39. If a property is covered under a Rent Control Act, the Reasonable Expected Rent cannot exceed what value?
(A) Municipal Value
(B) Fair Rent
(C) Actual Rent received
(D) Standard Rent

Ans :

(D) Standard Rent
The Rent Control Act imposes a legal ceiling on rent. The text states that if a property is covered under this Act, then the Reasonable Expected Rent (which is the higher of municipal value and fair rent) is subject to a cap. This RER cannot exceed the Standard Rent as defined under the Act.

May/June 2025

40. What is the "Municipal Value" of a property?
(A) The value determined by municipal authorities for levying local property taxes.
(B) The estimated rent a similar property can fetch if leased in the same or a similar locality.
(C) The maximum rent that is legally recoverable from a tenant under the state's Rent Control Act.
(D) The total contractual rent amount actually received or receivable from the tenant during the year.

Ans :

(A) The value determined by municipal authorities for levying local property taxes.
The chapter provides clear definitions for the components of rent calculation. Note 1 defines Municipal Value as the value determined by local municipal authorities. These authorities conduct periodic surveys of buildings in their jurisdiction to fix this value, which is then used as a basis for levying municipal taxes on the property.

Oct/Nov 2007

41. How is "Fair Rent" of a property determined?
(A) The official value fixed by the local municipal authority for the purpose of levying property taxes.
(B) The maximum rental amount a person can legally recover from any tenant under the Rent Control Act.
(C) The rent that a similar property in the same locality is expected to fetch.
(D) The specific rent amount contractually agreed upon between the landlord and the current tenant.

Ans :

(C) The rent that a similar property in the same locality is expected to fetch.
Note 2 in the chapter defines Fair Rent. It is described as the reasonable expected rent that the property can fetch in the open market. This is not a legally fixed value but is determined by comparing the property to similar properties in the same or a comparable locality and the rent they command.

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is not extended to other entities like Hindu Undivided Families (HUFs), partnership firms, or companies, even if they take a housing loan.

Oct/Nov 2005

33. How is the deduction under Section 80EE applied in the case of a property purchased jointly by a couple, where both are paying the loan instalments?

(A) The deduction can only be claimed by one of the joint owners.
(B) Both individuals can claim the deduction individually.
(C) The total deduction of ₹50,000 is split between the two.
(D) The deduction is not available for jointly owned properties.

Ans :

(B) Both individuals can claim the deduction individually.
Section 80EE is applied on a per-person basis, not a per-property basis. The text clarifies this by stating that if a property is purchased jointly (e.g., by a spouse) and both are repaying the loan, then both individuals can claim this deduction separately in their respective tax returns, provided they meet all other conditions.

May/June 2017

34. For a let-out property, what is the limit on the deduction of interest paid on a home loan?

(A) There is no statutory upper limit on the deduction.
(B) A maximum limit of ₹2,00,000 per financial year.
(C) A maximum limit of ₹30,000 per financial year.
(D) A maximum limit of ₹1,50,000 per financial year.

Ans :

(A) There is no statutory upper limit on the deduction.
The tax treatment for interest on a loan for a let-out (rented) property is different from that of a self-occupied one. The text states that if the property is rented out, the interest paid on the loan can be fully deducted from the income derived from that property, without the limit of ₹2,00,000 or ₹30,000.

Oct/Nov 2024

35. Based on the provided table "Computation of income from a let-out property", what is deducted from the Gross Annual Value (GAV) to arrive at the Net Annual Value (NAV)?

Particulars	Amount
Gross annual value	xxxx
Less:- Municipal taxes paid during the year	xxxx
Net Annual Value (NAV)	xxxx

(A) Standard Deduction under Section 24(a).
(B) Interest on borrowed capital under Section 24(b).
(C) Municipal taxes paid during the year.
(D) Unrealised rent of the previous year.

Ans :

(C) Municipal taxes paid during the year.
The provided table clearly illustrates the calculation steps for income from a let-out property. According to the structure shown, the Net Annual Value (NAV) is computed by subtracting the municipal taxes that have been actually paid during the year from the Gross Annual Value (GAV) of the property.

May/June 2010

36. According to the computation format for a let-out property, what deduction is calculated as 30% of the Net Annual Value (NAV)?

(A) Deduction for municipal taxes.
(B) Deduction under section 24(b) for interest.
(C) Deduction for principal repayment.
(D) Deduction under section 24(a).

Ans :

(D) Deduction under section 24(a).
The computation table for a let-out property shows the deductions allowed from the Net Annual Value (NAV). After calculating NAV, the next step is to claim deductions under Section 24. The first of these is the deduction under Section 24(a), which is explicitly mentioned as being calculated at 30% of the NAV.

Oct/Nov 2011

37. How is the Gross Annual Value (GAV) of a property that is let-out throughout the year determined?

(A) The lower of Reasonable Expected Rent or Actual Rent received.

NODIA

The purpose of the loan is critical. If a loan is taken for business or commercial purposes, even if secured by a property, the interest can be claimed as a business expense from the relevant income head. However, the text explicitly states that the benefit on account of principal repayment (under Section 80C) is not available.

Oct/Nov 2010

47. How is penal interest, or interest on unpaid interest, treated for tax deduction purposes?

(A) It is not considered a deductible expense under income tax law.
(B) It is fully deductible under the provisions of Section 24.
(C) It is deductible, but only up to a specified limit of ₹10,000.
(D) It can be capitalized and added to the total cost of the property.

Ans :

(A) It is not considered a deductible expense under income tax law.
The tax laws distinguish between interest on the principal loan amount and any penal charges. The chapter clearly states that interest on unpaid interest, which is defined as penal interest, is not deductible. The deduction is allowed only for the interest charged on the actual borrowed capital for the specified purposes.

May/June 2021

48. A husband and wife jointly own a property in a 60:40 ratio and are co-borrowers on a home loan. During a financial year, they pay a total principal of ₹2,00,000 and total interest of ₹3,00,000. What is the maximum interest deduction the husband can claim if he is the 60% owner?

(A) ₹3,00,000
(B) ₹1,80,000
(C) ₹2,00,000
(D) ₹1,20,000

Ans :

(B) ₹1,80,000
In a joint home loan, tax benefits are divided in the ownership proportion. The husband's share of the interest paid is 60% of ₹3,00,000, which equals ₹1,80,000. Since this amount is within his individual maximum permissible limit of ₹2,00,000 under Section 24 for a self-occupied property, he can claim the full ₹1,80,000 as a deduction.

Oct/Nov 2006

49. In the case of a home loan in joint names, what is the maximum tax rebate each co-applicant can claim for principal repayment under Section 80C?

(A) The total limit of ₹1.50 Lakh is divided among the co-applicants.
(B) Each co-applicant can claim a maximum of up to ₹1.50 Lakh.
(C) Only the primary applicant can claim the deduction.
(D) The limit is ₹75,000 for each co-applicant.

Ans :

(B) Each co-applicant can claim a maximum of up to ₹1.50 Lakh.
One of the key advantages of a joint home loan is the enhanced tax benefit. The text states that the tax benefits get divided among the owners. It further clarifies that each co-applicant can claim a maximum tax rebate of up to ₹1.50 Lakh for principal repayment under Section 80C, subject to their share of repayment.

May/June 2019

50. What is the first condition mentioned for claiming tax benefits on a joint home loan?

(A) The house property has to be bought by the individuals jointly and be in their joint names.
(B) The co-borrowers must be related by blood.
(C) Both co-borrowers must have equal ownership shares in the property.
(D) The property must be used for self-occupation by all co-borrowers.

Ans :

(A) The house property has to be bought by the individuals jointly and be in their joint names.
To avail joint tax benefits, the ownership structure must be clear. The text explicitly mentions that the very first condition is that the house property must be bought by the individuals jointly, and the legal ownership, as reflected in the property documents, must be in their joint names. This forms the basis for benefit allocation.

Oct/Nov 2014

51. For a Non-resident Indian (NRI) with taxable income in India, what is the maximum tax benefit available on the principal component of a home loan repayment?

(A) ₹1.00 Lakh

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May/June 2014

42. "Standard Rent" is applicable only in which of the following cases?
(A) In case of properties covered under the Rent Control Act.
(B) For all self-occupied properties.
(C) For all let-out properties.
(D) For properties located in metropolitan cities only.

Ans :

(A) In case of properties covered under the Rent Control Act.
The concept of Standard Rent is a legal one with limited applicability. Note 3 clarifies that Standard Rent is the maximum rent a person can legally recover from a tenant under the Rent Control Act. It is, therefore, applicable only in the specific case of properties that fall under the jurisdiction of this Act.

Oct/Nov 2016

43. When computing the actual rent of a property, how is the rent pertaining to a vacancy period treated?
(A) It is deducted from the total potential annual rent amount.
(B) It is estimated based on fair market rates and added to the rent received.
(C) It is carried forward as a loss to be adjusted in the next financial year.
(D) It is not deducted when computing the actual rent received or receivable.

Ans :

(D) It is not deducted when computing the actual rent received or receivable.
The text makes a clear distinction between vacancy and unrealised rent. It states that while computing the actual rent for the year, the rent pertaining to any period the property was vacant is not to be deducted. The calculation is based on the rent for the period the property was let out.

May/June 2018

44. Under what condition can unrealised rent be deducted from the actual rent of the year?
(A) It can be deducted under all circumstances.
(B) It can be deducted if specific conditions, such as the tenancy being bona fide, are met.
(C) It can be deducted only if the tenant provides a written reason for non-payment.
(D) It can be deducted only if the property is sold in the same year.

Ans :

(B) It can be deducted if specific conditions, such as the tenancy being bona fide, are met.
The deduction of unrealised rent (rent which the owner could not recover) is not automatic. The text specifies that it can be deducted from the actual rent only if a set of conditions are satisfied. These include the tenancy being bona fide and the owner having taken all reasonable steps for recovery.

Oct/Nov 2022

45. Which of the following is NOT a condition for deducting unrealised rent from the actual rent?
(A) The tenancy is bona fide.
(B) The defaulting tenant has vacated the property or steps have been taken to compel him to vacate.
(C) The taxpayer has agreed to waive the unrealised rent as a goodwill gesture.
(D) The defaulting tenant is not in occupation of any other property of the taxpayer.

Ans :

(C) The taxpayer has agreed to waive the unrealised rent as a goodwill gesture.
The conditions for deducting unrealised rent are stringent to prevent misuse. The taxpayer must demonstrate that they have made genuine efforts to recover the rent or that such efforts would be useless. Simply waiving the rent as a goodwill gesture does not meet this requirement and would not make the amount deductible.

May/June 2005

46. For a loan taken for a commercial property against the mortgage of a residential property, what tax benefit is available?
(A) Full deduction for both principal (Sec 80C) and interest (Sec 24) can be claimed.
(B) Only the principal repayment is eligible for deduction under the rules of Section 80C.
(C) Interest is deductible from business income, but principal repayment is not eligible for deduction.
(D) No tax benefit is available for either the interest or the principal portion of the loan.

Ans :

(D) No tax benefit is available for either the interest or the principal portion of the loan.

NODIA

30/03/2015. During F.Y. 2016-17, he paid ₹2,20,000 towards interest. What is the maximum amount of interest he can claim as a deduction for F.Y. 2016-17?
(A) ₹2,00,000
(B) ₹1,50,000
(C) ₹2,20,000
(D) ₹30,000

Ans :

(A) ₹2,00,000
The question is based on the scenario from "Check Your Progress". For a self-occupied property purchased with a loan taken after April 1, 1999, the maximum interest deduction under Section 24(b) is capped. Even though the individual paid ₹2,20,000 in interest, the claim is restricted to the statutory limit of ₹2,00,000 per financial year.

Oct/Nov 2009

57. A husband and wife jointly took a loan in April 2014 for constructing a house for self-occupation, which was completed in July 2015. They share ownership and repayment on a 50:50 basis. In F.Y. 2016-17, they paid a total interest of ₹4,25,000. What is the maximum interest deduction each of them can claim?
(A) ₹2,12,500
(B) ₹1,50,000
(C) ₹2,00,000
(D) ₹4,25,000

Ans :

(C) ₹2,00,000
This scenario is from "Check Your Progress". The total interest is ₹4,25,000. Each co-owner's share is 50%, which is ₹2,12,500. However, the individual limit for deduction under Section 24(b) for a self-occupied property is ₹2,00,000. Therefore, each of them can claim a maximum deduction of ₹2,00,000 in their respective returns.

May/June 2016

58. An individual took a loan of ₹10 Lakh for purchasing a plot of land during F.Y. 2010-11. In F.Y. 2016-17, he paid ₹1,10,000 in interest and ₹57,000 in principal. What is the total deduction he can claim under Sections 24 and 80C for this transaction?
(A) ₹0 (NIL)
(B) ₹1,67,000
(C) ₹1,10,000
(D) ₹57,000

Ans :

(A) ₹0 (NIL)
This is based on the "Check Your Progress" question 3. The tax benefits under Section 24 (interest) and Section 80C (principal) are available for loans taken for the purchase or construction of a residential house property. These deductions are not applicable for a loan taken purely for the purchase of a plot of land.

NODIA

Oct/Nov 2020

59. Identify the incorrect statement regarding the conditions for claiming interest deduction under Section 24(b).
(A) The loan must be for the purchase or construction of a residential property.
(B) A lender's certificate mentioning the interest paid is required.
(C) The loan must have been taken on or after 1st April 1999 for the ₹2 lakh limit.
(D) The deduction is available only if the property is self-occupied.

Ans :

(D) The deduction is available only if the property is self-occupied.
While the ₹2,00,000 limit applies to self-occupied property, the deduction for interest itself is also available for let-out properties. In fact, for let-out properties, there is no upper limit on the interest that can be claimed. Therefore, the statement that the deduction is available only for self-occupied properties is incorrect.

May/June 2011

60. Assertion (A): The deduction for principal repayment of a home loan under Section 80C can be claimed from the first year of loan repayment.
Reason (R): The property must be fully constructed and a completion certificate must have been received to claim the Section 80C benefit.
(A) Both A and R are true, and R is the correct explanation of A.
(B) Both A and R are true, but R is not the correct explanation of A.
(C) A is true, but R is false.
(D) A is false, but R is true.

Ans :

(D) A is false, but R is true.

Assertion (A) is false because the deduction for principal repayment is not allowed during the years the property is under construction. Reason (R) is true as it correctly states a key condition: the construction must be complete and a certificate received before Section 80C benefits can be claimed for principal repayment.

Oct/Nov 2012

61. Match List-I with List-II regarding tax deductions for housing finance.

List-I (Section)

P. Section 24(b)
Q. Section 80C
R. Section 80EE
S. Section 24(a)

List-II (Purpose/Limit)

1. Principal Repayment (Max ₹1.5 Lakh)
2. First-Time Home Buyer Interest (Max ₹50k)
3. Interest on Loan (Max ₹2 Lakh for SOP)
4. Standard Deduction (30% of NAV)

(A) P-1, Q-3, R-4, S-2
(B) P-3, Q-2, R-1, S-4
(C) P-3, Q-1, R-2, S-4
(D) P-4, Q-1, R-2, S-3

Ans :

(C) P-3, Q-1, R-2, S-4

P-Section 24(b) corresponds to deduction for interest on a home loan, with a limit of ₹2 lakh for a self-occupied property. Q-Section 80C is for principal repayment, capped at ₹1.5 lakh. R-Section 80EE is the additional interest deduction for first-time buyers, up to ₹50k. S-Section 24(a) is the standard 30% deduction from NAV.

May/June 2015

62. Which of the following statements regarding tax benefits is correct?

I. The deduction under Section 80C is available on a payment basis.
II. The deduction under Section 24 is available on an accrual basis.
III. Penal interest is not deductible.

(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) All I, II, and III

Ans :

(D) All I, II, and III

The chapter confirms all three statements. Section 80C deduction for principal is on a payment basis. Section 24 deduction for interest is on an accrual (payable) basis. It also explicitly states that penal interest, which is interest on unpaid interest, is not eligible for deduction. Therefore, all three statements are correct representations of the tax rules.

Oct/Nov 2013

63. Consider the following conditions for claiming deduction under Section 80EE:

1. Loan amount should not exceed ₹35 Lakh.
2. Property value should be less than ₹50 Lakh.
3. The taxpayer must not own any other house on the date of loan sanction.
4. The property must be self-occupied.

Which of the above conditions are necessary?

(A) 1, 2, and 3
(B) 1, 2, and 4
(C) 1, 3, and 4
(D) All of the above

Ans :

(A) 1, 2, and 3

The text outlines several conditions for Section 80EE. The loan must be ₹35 lakh or less, the property value under ₹50 lakh, and the buyer must not own another house at the time of sanction. However, it explicitly states the property can be either self-occupied or non-self-occupied, making condition 4 unnecessary.

May/June 2008

64. Read the following excerpt:

"If a house property for which tax benefit was availed under section 80C, is sold within a period of 5 years from the end of the financial year in which the property has been received in possession, then the total amount of tax deduction already claimed in respect of earlier years shall be deemed to be income of such year in which the property has been sold and will be liable to pay tax on that income."

Based on this, what is the consequence of selling a property in the 4th year after taking possession?

(A) A flat penalty of 20% is levied on the sale price, separate from capital gains tax.
(B) Previous 80C deductions for principal are reversed and added to the seller's taxable income.

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(C) The capital gains calculated from the sale of the property are taxed at a higher marginal rate.
(D) The new buyer of the property becomes legally liable for the seller's reversed tax benefit.

Ans :

(B) Previous 80C deductions for principal are reversed and added to the seller's taxable income. The excerpt clearly describes the mechanism for the reversal of the Section 80C benefit. It doesn't mention penalties or changes in capital gains tax rates. Instead, it specifies that the total amount previously claimed as a deduction under Section 80C is clawed back by treating it as taxable income in the year of the sale.

Oct/Nov 2017

65. If a taxpayer fails to complete construction of a house within 5 years of raising the loan, the total pre-construction interest:
(A) becomes completely ineligible for deduction and is treated as a capital expense.
(B) can be claimed in 5 instalments, but the annual interest cap reduces to ₹30,000.
(C) must be claimed in a single lump-sum instalment in the year of construction completion.
(D) can be claimed without any annual cap, as the delay is considered a penalty.

Ans :

(B) can be claimed in 5 instalments, but the annual interest cap reduces to ₹30,000.
The text explains two consequences of delay. First, the annual interest deduction limit under Section 24(b) for a self-occupied property reduces to ₹30,000. Second, the pre-construction interest can still be claimed in 5 instalments, but the total annual claim (current year interest + 1/5th of pre-construction interest) is subject to this reduced cap of ₹30,000.

May/June 2006

66. For a self-occupied property, the "Income from house property" is calculated as:
(A) Nil - Interest on borrowed capital (up to the limit)
(B) Gross Annual Value - Municipal Taxes
(C) Net Annual Value - 30% Standard Deduction
(D) Gross Annual Value - Interest on borrowed capital

Ans :

(A) Nil - Interest on borrowed capital (up to the limit)
The computation format for a self-occupied property shows that Gross Annual Value, Municipal Taxes, and Net Annual Value are all 'Nil'. The 30% standard deduction under 24(a) is also 'Nil'. The only effective item is the deduction for interest on borrowed capital under 24(b), making the final income a negative figure equal to the interest claimed.

Oct/Nov 2008

67. The deduction for Stamp Duty and Registration Fee under Section 80C can be claimed:
(A) Only if a housing loan has been taken for the property.
(B) Only in the year the property is sold.
(C) Whether the assessee has taken a loan or not.
(D) Only if the property is let out.

Ans :

(C) Whether the assessee has taken a loan or not.
The benefit of claiming Stamp Duty and Registration Fee under Section 80C is tied to the acquisition of the property, not the financing method. The text explicitly states that this deduction can be claimed whether the assessee has taken a loan or not, and it is claimed in the year the expense is incurred.

May/June 2024

68. Identify the correct pair from the following options:
(A) Section 80EE : Principal Repayment
(B) Section 24(b) : Interest on loan for repairs (limit ₹2,00,000)
(C) Section 24(a) : Interest on borrowed capital
(D) Section 80C : Stamp Duty and Registration Fee

Ans :

(D) Section 80C : Stamp Duty and Registration Fee
Section 80C allows deduction for principal repayment as well as Stamp Duty and Registration Fee. Section 80EE is for interest for first-time buyers. The limit for interest on repairs under 24(b) is ₹30,000, not ₹2,00,000. Section 24(a) is for the 30% standard deduction, not interest. Thus, only pair (D) is correctly matched.

NODIA

CHAPTER 29
Mortgage Advice

Oct/Nov 2016

1. According to the regulatory landscape described, what is the status of mortgage advice services in India?

(A) They are strictly regulated by the Reserve Bank of India (RBI), which sets all operational rules.

(B) They are carried out without any specific regulations, entry barriers, or a code of conduct.

(C) A license from the Securities and Exchange Board of India (SEBI) is mandatory for all practitioners.

(D) Only certified professionals from the IIBF are permitted to offer formal mortgage advice services.

Ans :

(B) They are carried out without any specific regulations, entry barriers, or a code of conduct.
In India, the mortgage advice profession operates in an unregulated environment. There are no stipulated entry barriers, codes of conduct, or ethical guidelines mandated by any regulatory authority. This allows any person to enter the profession, provide advice, and conduct business without specific licensing or certification, unlike in countries like the US and the UK.

May/June 2021

2. How does the regulatory environment for mortgage brokers in the United States differ from that in India?

(A) In the US, mortgage brokers are regulated through mandatory licensing, auditing, and examinations.

(B) In the US, mortgage brokers are self-regulated through industry associations, a model similar to India's.

(C) The US has no specific regulations for brokers, whereas India has a strict licensing regime managed by the RBI.

(D) Both countries require mortgage brokers to be registered with their respective central banks and adhere to a common international code.

Ans :

(A) In the US, mortgage brokers are regulated through mandatory licensing, auditing, and examinations.
Unlike India, the United States has a robust regulatory framework for the mortgage industry. State and Federal Government agencies regulate participants like mortgage brokers through chartering, licensing, auditing, and examinations. An individual or firm cannot engage in mortgage broking activities without obtaining the necessary license and adhering to mandatory standards of conduct.

Oct/Nov 2008

3. What is a key consequence for a licensed mortgage broker in the US for non-compliance with the licensing law?

(A) They are issued a warning for the first offense, with no other consequences.

(B) Their license is temporarily suspended but automatically reinstated after 30 days.

(C) They become subject to penalties for non-compliance as stipulated by the law.

(D) They are required to undergo additional training at their own expense.

Ans :

(C) They become subject to penalties for non-compliance as stipulated by the law.
Once an individual or firm is licensed as a mortgage broker in the US, they are bound by the substantive provisions of the licensing law. These laws include mandatory standards of conduct that must be followed. Any failure to comply with these provisions can result in the imposition of penalties, ensuring accountability within the profession.

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(D) The property must be given on rent to actively generate income taxable in India.

Ans :

(C) The NRI must have Indian taxable income against which deductions can be claimed.
The core principle of a tax deduction is that it reduces taxable income. If an NRI has no taxable income in India (e.g., only earns a salary abroad not taxable in India), there is nothing to deduct from. Therefore, having a taxable source of income in India is the fundamental prerequisite for claiming these benefits.

May/June 2010

74. Which of the following expenses is NOT part of the Section 80C basket of deductions mentioned in the chapter?
(A) Medical Insurance premium
(B) PPF Account investment
(C) Life Insurance premium
(D) National Savings Certificate

Ans :

(A) Medical Insurance premium
The text, while explaining that the ₹1,50,000 limit under Section 80C is inclusive of other options, lists several examples. These include PPF Account, Tax Saving Fixed Deposits, Life Insurance premium, National Savings Certificate, and Senior Citizens Saving Scheme. Medical insurance premium falls under a different section (Section 80D) and is not part of the 80C basket.

Oct/Nov 2007

75. A deduction can be claimed under Section 80C for principal repayment on a loan for a second house property, provided:
(A) The first house is also on loan.
(B) The second house is let out.
(C) The combined loan amount is below ₹50 lakh.
(D) All conditions like construction completion are met.

Ans :

(D) All conditions like construction completion are met.
The text clarifies the applicability of Section 80C by stating, "The benefit can also be claimed for more than 1 house property." This implies that as long as the fundamental conditions for the deduction (such as completion of construction and having a completion certificate) are met for that specific property, the principal repayment is eligible.

May/June 2025

76. In the computation of income from a self-occupied property, the deduction under Section 24(a) at 30% of NAV is always Nil because:
(A) The property is not used for business.
(B) The Net Annual Value (NAV) of a self-occupied property is taken as Nil.
(C) The owner bears the repair costs himself.
(D) The deduction is replaced by the interest deduction under Section 24(b).

Ans :

(B) The Net Annual Value (NAV) of a self-occupied property is taken as Nil.
The standard deduction under Section 24(a) is calculated as 30% of the Net Annual Value (NAV). As per the computation format for a self-occupied property, its Gross Annual Value and consequently its Net Annual Value are considered to be Nil. Therefore, 30% of Nil is Nil, making this deduction zero for self-occupied properties.

Oct/Nov 2015

77. A taxpayer takes a loan for construction of a house. During the construction period, he repays ₹80,000 towards the principal amount. The tax deduction he can claim under Section 80C for this payment is:
(A) The full amount of ₹80,000 can be claimed as a deduction.
(B) The maximum limit of ₹1,50,000 can be claimed.
(C) A deduction of ₹0 (Nil) is allowed for this payment.
(D) A deduction equal to 50% of the amount paid can be claimed.

Ans :

(C) A deduction of ₹0 (Nil) is allowed for this payment.
A critical condition for claiming the deduction for principal repayment under Section 80C is that the property's construction must be complete. The text explicitly states, "No deduction would be allowed under this section for repayment of principal for those years during which the property was under construction." Hence, the deduction is Nil.

NODIA

(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

Ans :

(B) P-3, Q-4, R-1, S-2
P-Unrealised Rent is rent the owner couldn't recover. Q-Actual Rent is the rent for the let-out period. R-Fair Rent is based on comparable properties in the vicinity. S-Standard Rent is the legal maximum under the Rent Control Act. This matching correctly aligns each term with its definition as provided in the chapter.

Oct/Nov 2018

87. Consider the following statements:
1. Deduction for principal repayment under 80C is available for a loan on a plot of land.
2. Deduction for interest under Section 24 is available for a loan on a plot of land.
3. Deduction for Stamp Duty paid on a plot of land is available under 80C.

Which of the statements is/are correct?
(A) 1 and 2 only
(B) 3 only
(C) All 1, 2 and 3
(D) None of the above

Ans :

(D) None of the above
The tax benefits under Sections 24 and 80C are specifically for a 'residential house property'. As demonstrated in the 'Check Your Progress' section, a loan taken purely for a plot of land does not qualify for these deductions. The benefit for stamp duty is also tied to the acquisition of a house property, not just land.

May/June 2023

88. Assertion (A): For a let-out property, the entire interest paid on a home loan can be claimed as a deduction without an upper limit.
Reason (R): The income from a let-out property is calculated after deducting municipal taxes and a standard 30% from its Net Annual Value.
(A) Both A and R are true, and R is the correct explanation of A.
(B) Both A and R are true, but R is not the correct explanation of A.
(C) A is true, but R is false.
(D) A is false, but R is true.

Ans :

(B) Both A and R are true, but R is not the correct explanation of A.
Assertion (A) is true; there is no limit on interest deduction for let-out properties. Reason (R) is also true; it correctly describes the computation of income from house property. However, the method of calculating taxable income (R) does not explain why the interest deduction is unlimited (A). They are two independent, correct facts about let-out properties.

Oct/Nov 2014

89. If a joint property is owned by two brothers in a 70:30 ratio and the total interest paid in a year is ₹5,00,000, what is the maximum interest the brother with the 30% share can claim?
(A) ₹5,00,000
(B) ₹2,00,000
(C) ₹1,50,000
(D) ₹3,00,000

Ans :

(C) ₹1,50,000
The benefits are shared in the ownership ratio. The brother's share of the interest is 30% of ₹5,00,000, which equals ₹1,50,000. Since this amount is within his individual maximum permissible limit of ₹2,00,000 under Section 24 for a self-occupied property, he can claim the entire ₹1,50,000 as his deduction.

May/June 2016

90. The deduction for interest on a housing loan can be claimed from which of the following sources of income?
(A) From income from property, salary, business/profession, capital gains, or any other source.
(B) Only from 'Income from House Property'.
(C) Only from 'Salary' income.
(D) Only from 'Capital Gains'.

Ans :

(A) From income from property, salary, business/profession, capital gains, or any other source.
The text specifies that the interest on a housing loan can be claimed as a deduction from a wide range of income sources. It lists "income from property, salary, business/profession, capital gains, or any other source," indicating that the resulting loss from house property can be set off against other heads of income in the same year.

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Ans :

(A) The specific ownership share of each joint holder must be clearly mentioned in the deed.
To ensure proper allocation of tax benefits, the legal standing must be unambiguous. The text emphasizes that the share of each holder should be clearly mentioned to provide absolute clarity on the percentage ownership of each co-owner. The division of tax benefits then follows this same proportion, making clear documentation essential for the claim.

Oct/Nov 2005

83. The deduction limit of Section 80C (₹1,50,000) is:
(A) A limit that is exclusively reserved for home loan principal repayment only.
(B) A separate limit that is applicable for each individual house property owned by the taxpayer.
(C) An aggregate limit including other investments like PPF and NSC.
(D) A limit that is automatically doubled for properties purchased via a joint home loan.

Ans :

(C) An aggregate limit including other investments like PPF and NSC.
The benefit under Section 80C is not a standalone deduction for home loan principal. The text clarifies that the tax deduction on principal repayment is part of the various deductions allowed under Section 80C, and the overall limit of ₹1,50,000 is inclusive of all eligible options like PPF, insurance premiums, and others.

May/June 2019

84. What is the implication of the term "accrual basis" for claiming interest deduction under Section 24?
(A) The interest amount can be claimed as a deduction only after it has been fully paid to the bank.
(B) Only the portion of interest that has both accrued and been physically paid can be claimed.
(C) The lending bank must issue a certificate that separates accrued interest from paid interest.
(D) Interest for the year is deductible even if it has not yet been actually paid.

Ans :

(D) Interest for the year is deductible even if it has not yet been actually paid.
The chapter states that the deduction of interest under Section 24 is on an accrual basis (i.e., on a payable basis). This means the liability for the interest for a particular financial year makes it eligible for deduction in that year, irrespective of the actual date of payment, which is the principle of accrual accounting.

Oct/Nov 2025

85. A loan is taken for re-finance (takeover) of an outstanding principal of an earlier housing loan. How is the interest on this new loan treated under Section 24(b)?
(A) It is considered a new loan for a different purpose and is not eligible for deduction.
(B) It is eligible for deduction, but only up to the reduced limit of ₹30,000 per year.
(C) It remains eligible for deduction under the standard rules and limits.
(D) It is eligible for deduction only if the new refinancing lender is a public sector bank.

Ans :

(C) It remains eligible for deduction under the standard rules and limits.
The definition of an eligible loan under Section 24(b) is broad. The text specifies that the loan can be for purchase, construction, or as re-finance (takeover) of the principal amount outstanding under an earlier loan taken for purchase or construction. Therefore, interest on such a takeover loan qualifies for the deduction.

May/June 2007

86. Match List-I (Term) with List-II (Description).
List-I (Term)
P. Unrealised Rent
Q. Actual Rent
R. Fair Rent
S. Standard Rent
List-II (Description)
1. Rent fetched by a similar property in the locality.
2. Maximum legally recoverable rent under a specific Act.
3. Rent not paid by the tenant and could not be recovered.
4. Rent for the period the property is let out.
(A) P-4, Q-3, R-2, S-1
(B) P-3, Q-4, R-1, S-2

NODIA

Oct/Nov 2021

69. Which of the following is an INCORRECT statement regarding joint home loans?
(A) Tax benefits are divided according to each co-owner's specified ownership share.
(B) Each co-owner can individually claim the interest deduction up to the ₹2 Lakh limit.
(C) The combined deduction for principal for all co-owners is collectively capped at ₹1.5 Lakh.
(D) The property title must be officially registered in the joint names of all co-borrowers.

Ans :

(C) The combined deduction for principal for all co-owners is collectively capped at ₹1.5 Lakh.
The text highlights that a key benefit of a joint loan is that each co-applicant can claim a maximum tax rebate of up to ₹1.50 Lakh for principal repayment under Section 80C individually. The limit is per person, not per property. Therefore, the statement that the combined limit is ₹1.5 Lakh is incorrect.

May/June 2013

70. Statement (1): For a let-out property, the entire amount of interest paid on a housing loan is deductible under Section 24. Statement (2): For a self-occupied property, the deduction for interest on a housing loan is capped at ₹2,00,000.
(A) Both statements are incorrect.
(B) Both statements are correct.
(C) Statement (1) is correct, but Statement (2) is incorrect.
(D) Statement (1) is incorrect, but Statement (2) is correct.

Ans :

(B) Both statements are correct.
The chapter clearly distinguishes between the two property types. It states that for a let-out property, no maximum limit for tax deduction has been prescribed for interest under Section 24. It also repeatedly confirms that for a self-occupied property, the deduction is capped at a maximum of ₹2,00,000, assuming all conditions are met.

Oct/Nov 2023

71. The deduction for unrealised rent is contingent on the taxpayer satisfying the Assessing Officer about what?
(A) That the tenant has promised to pay the dues in the next financial year.
(B) That the property has been insured against non-payment of rent.
(C) That a police complaint has been filed against the defaulting tenant.
(D) That legal proceedings to recover the amount have been initiated or would be useless.

Ans :

(D) That legal proceedings to recover the amount have been initiated or would be useless.
One of the conditions for deducting unrealised rent is that the taxpayer must demonstrate genuine effort in recovery. The text specifies that the taxpayer has taken all steps to recover the amount, including legal proceedings, or satisfies the Assessing Officer that initiating such legal proceedings would be futile or useless, thereby justifying the write-off.

May/June 2022

72. What is the tax treatment of interest on a loan taken for personal needs by mortgaging a property?
(A) Interest can be claimed as a deduction from income from other sources.
(B) Interest is deductible under Section 24 up to ₹30,000.
(C) Interest is not deductible from any income.
(D) Both interest and principal are deductible under Section 80C.

Ans :

(A) Interest can be claimed as a deduction from income from other sources.
The text states that interest on a loan taken for business/personal needs against property mortgage can be claimed as a deduction. The deduction would be from the income head corresponding to the use of the funds, such as "income from other sources" if used for personal investment, but not under the housing property head.

Oct/Nov 2023

73. A key principle for an NRI to claim tax benefits on a home loan in India is that:
(A) The NRI must be a citizen of India and hold a valid Indian passport.
(B) All loan repayments must be routed exclusively from an NRE bank account.
(C) The NRI must have Indian taxable income against which deductions can be claimed.

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Oct/Nov 2020

91. Which of the following conditions, if not met, reduces the interest deduction limit under Section 24(b) from ₹2,00,000 to ₹30,000 for a self-occupied property?

(A) The lending institution fails to issue the mandatory annual interest certificate.
(B) The original housing loan was taken just after the cut-off date, on 1st May 1999.
(C) The property is purchased under a joint ownership and co-borrower agreement.
(D) Construction is not completed within the stipulated 5-year time frame.

Ans :

(D) Construction is not completed within the stipulated 5-year time frame.
The chapter explicitly states the consequence of this specific failure. It says, "The tax benefit under section 24 is reduced from ₹2 lakh to ₹30,000, if the property is not acquired or construction is not completed within 5 years from the end of Financial Year in which the loan was taken."

May/June 2011

92. Which of the following is an eligibility criterion for claiming Section 80EE deduction?

(A) The taxpayer must be a salaried individual.
(B) The loan must be sanctioned between 1st April and 31st March in the financial year.
(C) The property must be the taxpayer's primary residence.
(D) The taxpayer's gross total income must be below ₹10 lakh.

Ans :

(B) The loan must be sanctioned between 1st April and 31st March in the financial year.
The text lists the conditions for Section 80EE. One of these is a time-bound condition on the loan sanction date, stating "The deduction can be availed on home loans sanctioned only between 1st April to 31st March in the financial year." This implies a specific window of opportunity defined by the government.

Oct/Nov 2012

93. If a property is sold after 6 years of taking possession, what happens to the Section 80C deductions claimed for principal repayment?

(A) All prior deductions are fully reversed and become taxable income in the year of the sale.
(B) A fixed penalty of 10% is automatically levied on the total amount of deductions claimed.
(C) Nothing happens, as the mandatory 5-year holding period has been completed.
(D) The seller is barred from claiming any new Section 80C deductions for the next 3 years.

Ans :

(C) Nothing happens, as the mandatory 5-year holding period has been completed.
The rule for reversal of Section 80C benefits applies only if the property is sold within 5 years from the end of the financial year of possession. Since the property is sold after 6 years, this condition is not triggered, and the taxpayer can retain all the tax benefits claimed in the previous years without any reversal.

May/June 2015

94. The calculation of "Reasonable Expected Rent" is a step towards determining:

(A) The Net Annual Value (NAV).
(B) The Standard Deduction.
(C) The amount of unrealised rent.
(D) The Gross Annual Value (GAV).

Ans :

(D) The Gross Annual Value (GAV).
The text outlines a clear process. Step 1 is computing the Reasonable Expected Rent. Step 2 is computing the actual rent. Step 3 is computing the Gross Annual Value (GAV) as the higher of the results from Step 1 and Step 2. Therefore, calculating RER is a preliminary step to arrive at the GAV.

Oct/Nov 2013

95. A taxpayer has taken all legal steps to recover rent from a defaulting tenant, but the efforts are useless. This helps the taxpayer to:

(A) Deduct the unrecovered amount as unrealised rent from the actual rent.
(B) Claim a higher standard deduction under Section 24(a).
(C) Evict the tenant without a court order.
(D) Claim a deduction for legal expenses under Section 80C.

Ans :

(A) Deduct the unrecovered amount as unrealised rent from the actual rent.
The text lists the conditions for deducting unrealised rent. One condition requires the

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May/June 2018

78. Which of the following is NOT a defined term in the context of calculating Gross Annual Value (GAV)?
(A) Municipal Value
(B) Fair Rent
(C) Standard Rent
(D) Market Value

Ans :

(D) Market Value
The chapter defines three specific terms for GAV calculation: Municipal Value (Note 1), Fair Rent (Note 2), and Standard Rent (Note 3). While 'Market Value' might be a related real estate concept, it is not one of the specific technical terms used or defined in the described procedure for computing Reasonable Expected Rent and GAV.

Oct/Nov 2009

79. The tax benefit under Section 80C for principal repayment, once claimed, gets reversed if the property is sold within a specific period. What is this period?
(A) 5 years from the end of the financial year in which possession was taken.
(B) 3 years from the date of purchase.
(C) 5 years from the date of loan sanction.
(D) 3 years from the end of the financial year in which possession was taken.

Ans :

(A) 5 years from the end of the financial year in which possession was taken.
The rule for the reversal of Section 80C benefits has a precise timeline. The lock-in period is 5 years, and this period is counted not from the date of possession itself, but from the end of the financial year in which the possession of the property was received by the taxpayer.

May/June 2021

80. Identify the incorrect statement concerning the tax deduction under Section 80EE.
(A) It is available to individual taxpayers on properties purchased singly or jointly.
(B) The taxpayer must reside in the property for which the loan is taken to claim the deduction.
(C) It is applicable on a per-person basis, not a per-property basis.
(D) The interest amount claimed under 80EE cannot be claimed again under Section 24.

Ans :

(B) The taxpayer must reside in the property for which the loan is taken to claim the deduction.
The text specifically clarifies the residency requirement for Section 80EE. It states that it is not necessary to reside in the property to claim this deduction. This allows borrowers who might be living in a different city or in rented accommodation to still avail the benefit if they meet all other criteria.

Oct/Nov 2016

81. For a loan taken to purchase a commercial property, which statement is true?
(A) A full deduction is available for both principal under Section 80C and interest under Section 24.
(B) Interest is deductible from business income, but principal repayment is not deductible.
(C) Only the principal repayment component is eligible for deduction under Section 80C.
(D) No tax benefit of any kind is available for the loan's interest or principal portion.

Ans :

(B) Interest is deductible from business income, but principal repayment is not deductible.
The purpose of the loan dictates the tax treatment. The text clarifies that for a commercial property loan, the interest can be fully claimed as a deduction from the respective income head (e.g., business/profession). However, it explicitly states that the benefit on account of principal repayment (Section 80C) shall not be available in such cases.

May/June 2012

82. In case of a joint home loan, for the tax benefits to be divided among co-owners, what is the crucial requirement regarding their ownership share?
(A) The specific ownership share of each joint holder must be clearly mentioned in the deed.
(B) The ownership shares of all co-owners must be exactly equal.
(C) The primary loan applicant is required to hold a majority share of the property.
(D) The ownership share is irrelevant, as benefits are divided by loan contribution only.

NODIA

(D) It provides them with taxable income in India, against which home loan deductions can be claimed.

Ans :

(D) It provides them with taxable income in India, against which home loan deductions can be claimed.
The rule for NRIs is that they must have taxable income in India. Rental income from an Indian property is considered taxable income in India. This income provides the necessary base against which the NRI can set off the deductions for home loan interest and principal repayment, thereby making them eligible to claim the benefits.

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taxpayer to have taken all steps for recovery or to satisfy the Assessing Officer that such proceedings would be useless. Fulfilling this condition allows the taxpayer to legally reduce their taxable rental income by the amount of the bad debt.

May/June 2008

96. Statement (1): The benefit on account of principal repayment of a home loan is not available for a loan taken for a commercial property. Statement (2): Interest on a loan taken for a commercial property can be claimed as a deduction from business income.

(A) Both statements are incorrect.
(B) Both statements are correct.
(C) Statement (1) is correct, but Statement (2) is incorrect.
(D) Statement (1) is incorrect, but Statement (2) is correct.

Ans :

(B) Both statements are correct.
The chapter clearly differentiates the tax treatment based on the loan's purpose. It states that for loans against property used for commercial or business purposes, the interest can be claimed as a deduction from the respective income head, but the benefit on account of principal repayment (under Section 80C) is not available.

Oct/Nov 2017

97. A co-owner of a joint property can claim the benefit under Section 80EE individually, provided:

(A) They are the primary applicant on the loan.
(B) Both individuals can claim the deduction individually.
(C) They own more than 50% of the property.
(D) The other co-owner forgoes their claim for the year.

Ans :

(B) Both individuals can claim the deduction individually.
The text states that the benefit under Section 80EE can be claimed individually by co-owners. This is contingent on each individual meeting the criteria for a first-time home buyer on their own merit (e.g., not owning another property, being within the loan/property value limits for their share, etc.), as the benefit is per person.

May/June 2006

98. The 'Check Your Progress' section provides an example of a loan taken for a 'plot of land'. The correct tax deduction in this case is Nil because:

(A) The deductions under Sections 24 and 80C are for a residential house, not for land.
(B) The loan amount was too low.
(C) The loan was taken in an older financial year.
(D) The interest rate was not specified.

Ans :

(A) The deductions under Sections 24 and 80C are for a residential house, not for land.
The purpose of the loan is paramount. The tax laws for housing finance are designed to promote the acquisition of a 'residential unit' or 'house property'. A loan taken exclusively for a plot of land does not meet this primary condition, and therefore, neither the interest nor the principal repayment qualifies for these specific deductions.

NODIA

Oct/Nov 2008

99. The lender's certificate, required for claiming interest deduction, should mention:

(A) The market value of the property.
(B) The credit score of the borrower.
(C) The interest and principal paid during the year.
(D) The remaining tenure of the loan.

Ans :

(C) The interest and principal paid during the year.
One of the conditions listed under Section 24(b) is that "The lender issues a certificate at the end of the financial year mentioning therein the interest and principal paid during the year in respect of that loan." This certificate serves as the primary proof for the amounts being claimed by the taxpayer in their return.

May/June 2024

100. If an NRI has rental income from a property in India, how does this affect their ability to claim home loan tax benefits?

(A) It has no effect; benefits can only be set off against salary income in India.
(B) It makes them ineligible as they are earning income from the property.
(C) It allows them to claim deductions only against the rental income, not other Indian income.

May/June 2014

4. The concept of "Home Information Packs" (HIPs) was introduced in which country and from what date?

(A) India, from 1st April 2008
(B) United States, from 1st January 2007
(C) Australia, from 1st July 2008
(D) United Kingdom, from 1st August 2007

Ans :

(D) United Kingdom, from 1st August 2007
The concept of "Home Information Packs" or HIPs is not an Indian one; it was introduced in the United Kingdom. The implementation of these packs began on a phased basis starting from 1st August 2007. The study of this concept is considered advisable as it may provide a model for potential introduction in India.

Oct/Nov 2025

5. What was the initial scope for the phased implementation of Home Information Packs (HIPs) in the UK from 1st August 2007?

(A) They were required for all residential property sales irrespective of size.
(B) They were initially required only for commercial property transactions.
(C) They were required for the sale of properties with four bedrooms or more.
(D) They were first implemented for one and two-bedroom properties.

Ans :

(C) They were required for the sale of properties with four bedrooms or more.
The implementation of Home Information Packs in the UK was done on a phased basis. Starting from 1st August 2007, these packs were made mandatory for the sale of larger properties, specifically those with four bedrooms or more. The plan was to phase in smaller properties later as more energy assessors became fully qualified.

May/June 2005

6. What is the primary advantage for sellers in providing a Home Information Pack (HIP) promptly?

(A) It allows them to set a higher selling price for the property.
(B) It reduces the likelihood of surprises that could delay the sale process.
(C) It legally obligates the buyer to complete the purchase.
(D) It exempts the seller from paying capital gains tax on the sale.

Ans :

(B) It reduces the likelihood of surprises that could delay the sale process.
For sellers, the timely provision of a Home Information Pack is advantageous because it provides potential buyers with comprehensive information upfront. This transparency helps to reduce the chances of encountering unexpected issues or "nasty surprises" later in the selling process, which could otherwise cause significant delays or even derail the entire transaction.

Oct/Nov 2019

7. Which of the following is NOT a compulsory document within a Home Information Pack (HIP) in the UK?

(A) A sale statement with basic property information like address and tenure type.
(B) Evidence of title proving the seller's right to sell the property.
(C) An Energy Performance Certificate rating the home's energy efficiency.
(D) A Home Condition Report detailing the physical condition of the property.

Ans :

(D) A Home Condition Report detailing the physical condition of the property.
The Home Information Pack consists of both compulsory and optional documents. While the sale statement, evidence of title, and Energy Performance Certificate are mandatory components, the Home Condition Report is listed as an optional document. This report provides detailed information on the property's physical condition but is not required to be included.

May/June 2011

8. On the Energy Performance Certificate included in a Home Information Pack, which band represents the most energy-efficient homes with the lowest fuel bills?

(A) Band A
(B) Band G
(C) Band D
(D) Band C

Ans :

(A) Band A

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are made or received at the end of each specified period. In contrast, for an Annuity Due, the payments are made or received at the beginning of each period.

May/June 2022

28. What is the primary purpose of calculating the future value of an ordinary annuity when making payments on a loan?
(A) To determine the present value of the loan.
(B) To determine the total cost of the loan.
(C) To calculate the interest rate of the loan.
(D) To find the number of payments required.

Ans :

(B) To determine the total cost of the loan.
When you are making regular payments on a loan, these payments form an annuity. Calculating the future value of this annuity is a useful method for determining the total amount you will have paid by the end of the loan term. This figure represents the total cost of the loan, including both principal and all interest paid.

Oct/Nov 2023

29. The formula for the Future Value of an Ordinary Annuity is given by

$$F = A\left[\frac{(1+i)^n - 1}{i}\right]$$

What does 'A' represent in this formula?
(A) The future value
(B) The interest rate
(C) The annuity payment per period
(D) The term or number of periods

Ans :

(C) The annuity payment per period
In the formula for the future value of an ordinary annuity, 'F' is the future value, 'i' is the interest rate per period, and 'n' is the number of periods. The variable 'A' represents the amount of the annuity, which is the fixed payment made or received in each period of the series.

May/June 2016

30. How is the formula for the future value of an Annuity Due modified from the formula for an Ordinary Annuity?
(A) It is divided by (1+i).
(B) The term 'n' is reduced by 1.
(C) The interest rate 'i' is doubled.
(D) It is multiplied by (1+i).

Ans :

(D) It is multiplied by (1+i).
Since payments in an annuity due are made at the beginning of each period, every payment earns interest for one additional period compared to an ordinary annuity. To account for this extra period of interest accumulation, the standard ordinary annuity formula is multiplied by a factor of (1+i).

Oct/Nov 2009

31. Using the Compound Value Factor for Annuity (CVA) table, what is the CVA factor for an ordinary annuity of ₹1 for 5 years at an interest rate of 9%?

Year	7%	8%	9%	10%
4	4.440	4.506	4.573	4.641
5	5.751	5.867	5.985	6.105
6	7.153	7.336	7.523	7.716

(A) 5.985
(B) 5.867
(C) 4.573
(D) 6.105

Ans :

(A) 5.985
The Compound Value Factor for Annuity (CVA) table provides factors to calculate the future value of an ordinary annuity. To find the factor for 5 years at 9%, you must locate the row for 'Year 5' and the column for '9%'. The value at the intersection of this row and column is 5.985.

May/June 2007

32. Ms. Anusaya is paying a home loan instalment, which is treated as an annuity of ₹10,000 per year for 6 years. If the relevant interest rate is 11% p.a., and the CVA factor for 6 years at 11% is 7.913, what is the future value of her payments at the end of the loan period?
(A) ₹66,000
(B) ₹79,130
(C) ₹11,000
(D) ₹77,913

Ans :

(B) ₹79,130
The future value of an annuity can be calculated by multiplying the annuity amount by the corresponding Compound Value Factor for Annuity (CVA). In this scenario, the annuity is ₹10,000 and the CVA factor is given as 7.913.

NODIA

(D) Compounding is used for loans, while discounting is used for investments.

Ans :

(C) Compounding determines the future value of present cash flows, while discounting determines the present value of future cash flows.
Compounding and discounting are inverse processes. Compounding is the method used to calculate how a present sum of money will grow into a future value over time, given an interest rate. Conversely, discounting is the method used to calculate the present-day equivalent of a sum of money that is to be received in the future.

May/June 2009

14. Based on the table provided for an initial principal of ₹10,000 at a 6% interest rate for one year, what is the final principal if the interest is compounded quarterly?

n	p
1 (yearly)	10,600
2 (semi-annually)	10,609
4 (quarterly)	10,613
12 (monthly)	10,616
52 (weekly)	10,618

(A) ₹10,600
(B) ₹10,609
(C) ₹10,616
(D) ₹10,613

Ans :

(D) ₹10,613
The provided table illustrates the effect of compounding frequency on the final principal. For an initial amount of ₹10,000 invested for one year at a 6% interest rate, the table explicitly shows the resulting principal for different compounding periods. When the compounding frequency 'n' is 4 (quarterly), the final principal 'p' is ₹10,613.

Oct/Nov 2010

15. Based on the concept of frequent compounding, which of the following will yield the highest return on an investment over a one-year period?
(A) Monthly compounding
(B) Annual compounding
(C) Semi-annual compounding
(D) Quarterly compounding

Ans :

(A) Monthly compounding
The more frequently interest is compounded within a given period, the higher the effective interest rate and the greater the final accumulated amount. Interest is calculated on a growing principal balance more often. Therefore, monthly compounding will result in a larger sum than quarterly, semi-annual, or annual compounding for the same nominal interest rate.

May/June 2017

16. What does the "Rule of 72" help to determine?
(A) The future value of a complex annuity stream.
(B) The approximate number of years for an investment or debt to double.
(C) The exact number of years for a specific investment to double.
(D) The present value of a single future lump sum payment.

Ans :

(B) The approximate number of years for an investment or debt to double.
The Rule of 72 is a simple mental shortcut used in finance to quickly estimate the number of years required for an investment or a debt to double in value at a fixed annual rate of interest. By dividing 72 by the annual interest rate, one gets an approximation of the doubling time in years.

Oct/Nov 2005

17. An investor has a savings account with ₹500 earning 4% annual interest. Using the appropriate rule of thumb, approximately how many years will it take for the account balance to become ₹1,000, assuming no further deposits or withdrawals are made?
(A) 12 years
(B) 18 years
(C) 28 years and 9 months
(D) 36 years

Ans :

(B) 18 years
To determine the approximate time it takes for money to double, the Rule of 72 is used. The formula is Years to Double ≈ 72 / Interest Rate. In this case, with a 4% interest rate, the calculation is 72 / 4 = 18 years. Therefore, it will take

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The Energy Performance Certificate, a compulsory part of the Home Information Pack, rates a home's energy efficiency on a scale from A to G. Homes that are rated in Band A are considered the most energy-efficient. Consequently, these properties are expected to have the lowest fuel bills, making this a key piece of information for potential buyers.

Oct/Nov 2014

9. Which of the following is an optional document that can be included in a Home Information Pack?
(A) Energy Performance Certificate
(B) Evidence of title
(C) Legal summary
(D) Sale statement

Ans :

(C) Legal summary
The Home Information Pack includes a list of optional documents that can supplement the mandatory ones. Among the options provided, the Legal summary, which gives an overview of helpful legal aspects for buyers, is an optional component. The Energy Performance Certificate, evidence of title, and sale statement are all compulsory documents that must be included in the pack.

May/June 2023

10. The fundamental principle of the time value of money states that:
(A) A rupee today is worth more than a rupee receivable at a future date.
(B) A rupee receivable tomorrow is worth more than a rupee today.
(C) The value of a rupee remains constant regardless of time.
(D) The value of money is only determined by its purchasing power.

Ans :

(A) A rupee today is worth more than a rupee receivable at a future date.
The concept of the time value of money is based on the principle that money available at the present time is worth more than the identical sum in the future. This is because the money received today can be invested to earn interest, thereby growing to a larger amount over the intervening period.

Oct/Nov 2006

11. If ₹100 is invested at 5% per annum compound interest, what would its value be at the end of two years?
(A) ₹110.00
(B) ₹105.00
(C) ₹110.50
(D) ₹110.25

Ans :

(D) ₹110.25
With compound interest, the interest earned each period is added to the principal for the next period. After one year, ₹100 becomes ₹100 1.05 = ₹105. For the second year, the interest is calculated on ₹105, so the final amount is ₹105 1.05 = ₹110.25. This demonstrates the power of compounding over time.

May/June 2018

12. What is the term for the process of converting future sums into their present equivalents?
(A) Compounding
(B) Discounting
(C) Annuity
(D) Indexation

Ans :

(B) Discounting
Discounting is the financial process used to determine the present value of future cash flows. It is the direct opposite of compounding, which calculates the future value of present cash flows. Discounting is essential for making realistic appraisals of payments or receipts that are scheduled to occur at a future date, based on a specific interest rate.

Oct/Nov 2022

13. Which of the following statements correctly describes the relationship between compounding and discounting?
(A) Compounding determines the present value of future cash flows, while discounting determines the future value of present cash flows.
(B) Compounding and discounting are identical processes used for calculating interest.
(C) Compounding determines the future value of present cash flows, while discounting determines the present value of future cash flows.

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Oct/Nov 2017

23. Using the Future Value Factors (FVF) table provided, what is the future value of ₹1 invested for 4 years at an interest rate of 11%?

Year	7%	8%	9%	10%	11%	12%
3	1.23	1.26	1.29	1.33	1.36	1.40
4	1.31	1.36	1.41	1.46	1.51	1.57
5	1.40	1.47	1.54	1.61	1.68	1.76

(A) 1.46
(B) 1.36
(C) 1.68
(D) 1.51

Ans :

(D) 1.51
The Future Value Factors (FVF) table shows the future value of ₹1 for different interest rates and time periods. To find the factor for 4 years at 11%, you locate the row corresponding to 'Year 4' and the column corresponding to '11%'. The value at the intersection of this row and column is 1.51.

May/June 2008

24. An individual invests ₹1,00,000 for a period of 6 years at an interest rate of 11% p.a. Using the formula Future Value = PV × Future Value Factor, and given the FVF for 6 years at 11% is 1.87, what is the maturity sum?
(A) ₹1,87,000
(B) ₹1,11,000
(C) ₹1,66,000
(D) ₹1,98,000

Ans :

(A) ₹1,87,000
The future value can be calculated by multiplying the present value (PV) by the appropriate future value factor (FVF). In this case, the present value is ₹1,00,000 and the FVF for 6 years at 11% is given as 1.87. Therefore, the future value is ₹1,00,000 × 1.87 = ₹1,87,000, which is the maturity sum.

Oct/Nov 2013

25. Which MS Excel function is used to calculate the future value of an investment?
(A) PV(RATE, NPER, PMT, [FV], [TYPE])
(B) NPER(RATE, PMT, PV, [FV], [TYPE])
(C) FV(RATE, NPER, PMT, [PV], [TYPE])
(D) RATE(NPER, PMT, PV, [FV], [TYPE])

Ans :

(C) FV(RATE, NPER, PMT, [PV], [TYPE])
In MS Excel, the `FV` function is the in-built financial function used to calculate the future value of an investment. The function's syntax is `FV(RATE, NPER, PMT, [PV], [TYPE])`, where RATE is the interest rate, NPER is the number of periods, PMT is the payment per period, and PV is the present value.

May/June 2015

26. In the MS Excel `FV` function, what does the 'TYPE' argument signify?
(A) Whether the cash flow occurs at the beginning (1) or at the end (0) of the period.
(B) The type of interest used in the calculation, whether it is simple or compound.
(C) The type of currency being used for the calculation, such as INR, USD, or EUR.
(D) The type of financial instrument, whether it is a standard loan or a savings deposit.

Ans :

(A) Whether the cash flow occurs at the beginning (1) or at the end (0) of the period.
The 'TYPE' argument in Excel's financial functions like FV and PV is used to specify the timing of payments within a period. A value of 0 (or omitted) indicates that payments are due at the end of the period (an ordinary annuity), while a value of 1 indicates payments are due at the beginning (an annuity due).

Oct/Nov 2012

27. How is an "Annuity Due" different from an "Ordinary Annuity"?
(A) An Annuity Due has variable payments, while an Ordinary Annuity has fixed payments.
(B) An Annuity Due is for investments only, while an Ordinary Annuity is for loans only.
(C) Payments for an Annuity Due are made at the end of each period, while for an Ordinary Annuity they are at the beginning.
(D) Payments for an Annuity Due are made at the beginning of each period, while for an Ordinary Annuity they are at the end.

Ans :

(D) Payments for an Annuity Due are made at the beginning of each period, while for an Ordinary Annuity they are at the end.
The key distinction between these two types of annuities lies in the timing of the payments. For an Ordinary Annuity, the series of fixed payments

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any improvement or additions made to the asset, such as construction.

Oct/Nov 2025

47. In the case of a transfer of an immovable property by way of inheritance, what is taken as the cost of acquisition for the heir?
(A) The market value at the time of inheritance.
(B) Zero, as no payment was made.
(C) The registration value at the time of inheritance.
(D) The cost to the previous owner.

Ans :

(D) The cost to the previous owner.
For assets acquired through inheritance, will, gift, or on partition of a Hindu Undivided Family (HUF), the cost of acquisition for the new owner is deemed to be the cost for which the previous owner had acquired it. This ensures that the appreciation in value across different owners is eventually subject to capital gains tax.

May/June 2012

48. A key difference in computing Long-Term Capital Gain (LTCG) compared to Short-Term Capital Gain (STCG) is the deduction of:
(A) Indexed cost of acquisition
(B) Cost of acquisition
(C) Expenditure of transfer
(D) Cost of improvement

Ans :

(A) Indexed cost of acquisition
The method of computation for LTCG differs significantly from STCG due to the benefit of indexation. While both allow deductions for transfer expenses and cost of acquisition/improvement, only LTCG allows for the 'Indexed cost of acquisition' and 'Indexed cost of improvement'. This adjustment for inflation typically results in a lower taxable gain for long-term assets.

Oct/Nov 2014

49. What is the primary purpose of using the Cost Inflation Index (CII) in capital gains computation?
(A) To accurately calculate the fair market value of the asset at the time of its sale.
(B) To adjust the cost of acquisition against the inflationary rise in the asset's value.
(C) To determine the specific income tax rate that will be applicable to the capital gain amount.
(D) To compute the official stamp duty value of the property for registration purposes.

Ans :

(B) To adjust the cost of acquisition against the inflationary rise in the asset's value.
Indexation is a process designed to mitigate the impact of inflation on capital gains tax. The Cost Inflation Index (CII) is used to adjust the original cost of acquiring a long-term capital asset to its inflation-adjusted value at the time of sale. This increases the cost base and thereby reduces the amount of taxable capital gain.

May/June 2019

50. The benefit of indexation using the Cost Inflation Index (CII) is available for which type of capital asset?
(A) Only for short-term capital assets.
(B) Only for long-term capital assets.
(C) For both short-term and long-term capital assets.
(D) Only for financial assets like shares and bonds.

Ans :

(B) Only for long-term capital assets.
The benefit of indexation is a specific advantage provided for gains arising from the transfer of long-term capital assets. It is not applicable to short-term capital assets. This policy encourages long-term investment by providing relief from the portion of the gain that is merely due to general inflation over the holding period.

Oct/Nov 2006

51. The base year for the Cost Inflation Index (CII) was shifted from 1981-82 to which financial year?
(A) 1991-92
(B) 2005-06
(C) 2011-12
(D) 2001-02

Ans :

(D) 2001-02
To update the base for calculating inflation-adjusted costs, the base year for the Cost Inflation Index was shifted. As per the explanation to section 48 of the Income-tax Act, the base year was moved from 1981-82 to 2001-02. The CII for the new base year 2001-02 was set at 100.

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Therefore, the future value is ₹10,000 × 7.913 = ₹79,130.

Oct/Nov 2018

33. The formula for finding Present Value (PV) is given as

$$PV = \frac{FV}{(1+r)^n}$$

What does 'FV' represent in this formula?
(A) Final Value
(B) Face Value
(C) Future Value
(D) Factor Value

Ans :

(C) Future Value
In the present value formula,

$$PV = \frac{FV}{(1+r)^n}$$

The variable 'PV' stands for Present Value, 'r' is the rate of interest, and 'n' is the number of periods. The variable 'FV' represents the Future Value, which is the amount of money that will be received or paid at a future date.

May/June 2012

34. If the maturity value of an investment after 5 years at 10% p.a. interest is ₹1,61,000, what was the initial amount invested (present value)?
(A) ₹1,10,000
(B) ₹1,00,000
(C) ₹90,000
(D) ₹1,21,000

Ans :

(B) ₹1,00,000
To find the present value (PV), we use the formula

$$PV = \frac{FV}{(1+r)^n}$$

Here, FV = ₹1,61,000, r = 0.10, and n = 5. The denominator $(1.10)^5$ is 1.61. So, the calculation is PV = ₹1,61,000 / 1.61 = ₹1,00,000. This was the principal amount initially invested.

Oct/Nov 2007

35. Using the Present Value Factors (PVF) table provided, what is the present value factor for a cash flow to be received in 6 years at an interest rate of 10%?

Year	8%	9%	10%	11%
5	0.68	0.65	0.62	0.59
6	0.63	0.60	0.56	0.53
7	0.58	0.55	0.51	0.48

(A) 0.62
(B) 0.60
(C) 0.56
(D) 0.53

Ans :

(C) 0.56
The Present Value Factors (PVF) table is used to find the present value of ₹1 to be received in the future. To find the factor for a period of 6 years at a 10% interest rate, one must look at the intersection of the row for 'Year 6' and the column for '10%'. The value is 0.56.

May/June 2025

36. In MS Excel, if you need to find the amount to invest today to achieve a future value of ₹1,87,041 in 6 years at an 11% interest rate, which function and inputs would be correct?
(A) =PV(0.11, 6, 0, -187041, 0)
(B) =FV(0.11, 6, 0, -187041, 0)
(C) =RATE(6, 0, -100000, 187041, 0)
(D) =NPER(0.11, 0, -100000, 187041, 0)

Ans :

(A) =PV(0.11, 6, 0, -187041, 0)
To find the present value (the amount to invest today), the `PV` function in Excel is used. The correct syntax would be `PV(RATE, NPER, PMT, FV, TYPE)`. For this problem, the inputs are RATE=0.11, NPER=6, PMT=0 (as it's a lump sum), and FV=-187041, resulting in an output of ₹1,00,000.

Oct/Nov 2011

37. Any profit or gain arising from the transfer of a capital asset is chargeable to tax under which head of income?
(A) Income from Salary
(B) Income from House Property
(C) Capital Gains
(D) Profits and Gains from Business or Profession

Ans :

(C) Capital Gains
According to the Income-tax Act, any profit or gain that arises from the transfer of a capital

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asset is specifically categorized and taxed under the head "capital gains". This head of income has its own set of rules for computation, holding periods, and tax rates, distinct from other sources of income like salary or business profits.

May/June 2010

38. Which of the following items is EXCLUDED from the definition of a "capital asset" under the Income-tax Act?
(A) Stock-in-trade
(B) Jewellery
(C) Archaeological collections
(D) Sculptures

Ans :

(A) Stock-in-trade
The definition of a capital asset is broad but has specific exclusions. Stock-in-trade, consumable stores, or raw materials held for the purpose of a business or profession are explicitly excluded from being treated as capital assets. Their sale is treated as business income. In contrast, items like jewellery and archaeological collections are specifically included.

Oct/Nov 2024

39. Under what condition is agricultural land situated near a cantonment board with a population between 10,001 and 1 lakh considered a capital asset?
(A) If it is situated more than 2 KMs aerially from the local limits of the board.
(B) If it is situated within 6 KMs aerially from the local limits of the board.
(C) If it is situated within 2 KMs aerially from the local limits of the board.
(D) If it is situated more than 8 KMs aerially from the local limits of the board.

Ans :

(C) If it is situated within 2 KMs aerially from the local limits of the board.
Agricultural land is generally not a capital asset, but it becomes one if it is located in or near an urban area. Specifically, for a municipality or cantonment board with a population exceeding 10,000 but not exceeding 1 lakh, any agricultural land situated within an aerial distance of 2 kilometers from its local limits is treated as a capital asset.

May/June 2019

40. Which of the following is NOT considered a "transfer" in relation to a capital asset under the Income-tax Law?
(A) Sale or exchange of the asset.
(B) Extinguishment of any rights in relation to the asset.
(C) Compulsory acquisition of the asset under any law.
(D) Holding the asset for personal use.

Ans :

(D) Holding the asset for personal use.
The term "transfer" has a wide meaning under the Income-tax Law. It includes sale, exchange, relinquishment, extinguishment of rights, compulsory acquisition, and even transactions that enable the enjoyment of immovable property. However, simply holding an asset for personal use without any change in ownership or rights does not constitute a transfer.

Oct/Nov 2020

41. If an individual gifts a capital asset to their friend, what are the capital gains tax implications for the giver at the time of the gift?
(A) The giver must pay long-term capital gains tax on the fair market value at the time of the gift.
(B) The giver must pay short-term capital gains tax on the appreciated value of the asset.
(C) No capital gain will arise in the hands of the person making the gift.
(D) The capital gain is calculated for the giver, but the tax liability is transferred to the recipient.

Ans :

(C) No capital gain will arise in the hands of the person making the gift.
The act of gifting a capital asset is not considered a "transfer" for the purpose of levying capital gains tax on the person giving the gift. Therefore, no capital gain arises for the donor. The tax liability is deferred until the recipient of the gift subsequently transfers the asset, at which point capital gains will be calculated.

May/June 2016

42. When a person sells a capital asset that they had previously received as a gift, what is considered their cost of acquisition for calculating capital gains?

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(A) The market value of the asset on the date of the gift.
(B) The cost of acquisition to the previous owner.
(C) Zero, as they did not pay for the asset.
(D) The inflation-indexed market value on the date of the gift.

Ans :

(B) The cost of acquisition to the previous owner.
For capital assets acquired by way of gift or will, special provisions apply. The cost of acquisition for the new owner (the recipient of the gift) is deemed to be the cost for which the previous owner originally acquired the asset. This rule ensures that the entire appreciation in value is taxed upon final sale.

Oct/Nov 2009

43. What is the maximum holding period for an asset like listed equity shares to be classified as a Short-Term Capital Asset?
(A) 36 months
(B) 24 months
(C) 60 months
(D) 12 months

Ans :

(D) 12 months
While the general rule for a short-term capital asset is a holding period of 36 months or less, there are specific exceptions. For certain assets, including equity shares listed on a recognized stock exchange in India, units of equity-oriented mutual funds, and listed securities, the holding period is 12 months or less.

May/June 2023

44. As per the rules effective from Assessment Year 2018-19, what is the holding period threshold for an immovable property (land or building) to be classified as a Long-Term Capital Asset?
(A) Held for more than 12 months.
(B) Held for more than 36 months.
(C) Held for more than 60 months.
(D) Held for more than 24 months.

Ans :

(D) Held for more than 24 months.
With effect from Assessment Year 2018-19, the holding period for immovable property, such as land, a building, or both, was reduced. To be classified as a long-term capital asset, such property must now be held for a period of more than 24 months, a change from the previous requirement of more than 36 months.

Oct/Nov 2018

45. What is a significant tax disadvantage of a Short-Term Capital Gain (STCG) on property compared to a Long-Term Capital Gain (LTCG)?
(A) STCG is taxed at a flat rate of 30%, which is always a higher tax outgo than the LTCG tax rate.
(B) No deductions for brokerage or commission paid during the sale are allowed from the STCG calculation.
(C) The benefit of indexation to adjust for inflation is not allowed for STCG.
(D) STCG cannot be adjusted against the basic income tax exemption limit available to the individual.

Ans :

(C) The benefit of indexation to adjust for inflation is not allowed for STCG.
A key difference in the tax treatment of STCG and LTCG is the availability of indexation. For STCG, the gain is calculated simply as sale consideration minus the cost of acquisition and improvement. The benefit of indexation, which adjusts the cost for inflation and reduces the taxable gain, is only available for Long-Term Capital Gains.

May/June 2007

46. An assessee is allowed to deduct certain expenditures from the sale consideration when computing Short-Term Capital Gain. Which one of the following is an allowable deduction?
(A) Personal living expenses during the holding period.
(B) Expenditure on construction or home improvement incurred.
(C) Notional interest loss on the capital invested.
(D) Re-investment in bonds issued by REC or NHAI.

Ans :

(B) Expenditure on construction or home improvement incurred.
When calculating capital gains, whether short-term or long-term, the assessee can reduce the sale consideration by certain costs. These include the original cost of acquisition, expenditure incurred wholly and exclusively in connection with the transfer (like brokerage), and the cost of

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approximately 18 years for the ₹500 to double to ₹1,000.

May/June 2020

18. An individual wants to estimate the time it would take for their investment to triple in value. Which rule of thumb should they use?
(A) The Rule of 115
(B) The Rule of 72
(C) The Rule of 144
(D) The Rule of 100

Ans :

(A) The Rule of 115
While the Rule of 72 estimates doubling time, the Rule of 115 is used to approximate the number of years it will take for an investment to triple. By dividing 115 by the annual interest rate, one can get a quick estimate of the tripling period. This is another useful mental shortcut in financial planning.

Oct/Nov 2015

19. If a debt is accruing interest at 6% per annum, approximately how many years would it take for the debt amount to quadruple, assuming no payments are made?
(A) 12 years
(B) 19.17 years
(C) 24 years
(D) 30 years

Ans :

(C) 24 years
The Rule of 144 is used to estimate the time it takes for an investment or debt to become four times its original principal. To find the approximate number of years, you divide 144 by the interest rate. In this scenario, 144 divided by 6 equals 24. Thus, it would take approximately 24 years for the debt to quadruple.

May/June 2013

20. Which of the following statements is correct regarding the application of the Rules of 72, 115, and 144?
(A) The rules can only be applied to appreciating investments and not to depreciating debt.
(B) The rules provide the exact time period, to the day, for money to grow.
(C) The rules are only applicable for fixed interest rates above 10% per annum.
(D) The rules can be applied to both investments (earnings) and debt (costs).

Ans :

(D) The rules can be applied to both investments (earnings) and debt (costs).
These rules of thumb are versatile and can be used to estimate the time it takes for a principal amount to grow, whether it is an investment earning interest or a debt incurring interest. The calculation works the same way: divide the rule number (72, 115, or 144) by the percentage rate to find the approximate years.

Oct/Nov 2021

21. What is the correct formula for calculating the Future Value (FV) of a present sum?
(A) $FV = PV / (1 + r)^n$
(B) $FV = PV \times r \times n$
(C) $FV = PV(1 + r)^n$
(D) $FV = PV + (1 + r)^n$

Ans :

(C) $FV = PV(1 + r)^n$
The standard formula for calculating the future value (FV) using compound interest is $FV = PV(1 + r)^n$. In this formula, PV represents the present value or initial principal amount, 'r' is the rate of interest per period, and 'n' is the number of compounding periods. This formula quantifies the growth of money over time.

May/June 2024

22. If ₹1,00,000 is invested for a period of 5 years at an interest rate of 10% p.a., what is the maturity sum?
(A) ₹1,50,000
(B) ₹1,61,000
(C) ₹1,10,000
(D) ₹1,61,051

Ans :

(B) ₹1,61,000
Using the future value formula

$$FV = PV(1 + r)^n,$$

We can calculate the maturity sum.
Here, PV = ₹1,00,000, r = 0.10, and n = 5.
The calculation is

$$FV = 100000 \times (1 + 0.10)^5$$
$$= 100000 \times (1.10)^5$$
$$= 100000 \times 1.61 = ₹1,61,000.$$

This is the final amount after 5 years.

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May/June 2021

52. What is the correct formula for calculating the Indexed Cost of Acquisition of a capital asset?

(A) Cost of acquisition × (CII for year of transfer / CII for year of acquisition)
(B) Cost of acquisition × (CII for year of acquisition / CII for year of transfer)
(C) Cost of acquisition × (1 + CII for year of transfer)
(D) Cost of acquisition / (CII for year of transfer - CII for year of acquisition)

Ans :

(A) Cost of acquisition × (CII for year of transfer / CII for year of acquisition)
The formula for computing the indexed cost of acquisition is designed to scale up the original cost to its equivalent value in the year of sale. This is achieved by multiplying the original cost of acquisition by the ratio of the Cost Inflation Index (CII) of the year of transfer to the CII of the year of acquisition.

Oct/Nov 2010

53. An asset was purchased in the financial year 2005-06 for ₹5,00,000 and sold in the financial year 2021-22. Given the CII for 2005-06 is 117 and for 2021-22 is 317, what is the indexed cost of acquisition?

(A) ₹1,84,227.13
(B) ₹8,17,000.00
(C) ₹13,54,700.85
(D) ₹10,00,000.00

Ans :

(C) ₹13,54,700.85
The indexed cost of acquisition is calculated using the formula: Cost × (CII of transfer year / CII of acquisition year). In this case, the calculation is ₹5,00,000 × (317 / 117). This equals ₹5,00,000 × 2.7094, which results in an indexed cost of approximately ₹13,54,700.85.

May/June 2005

54. Refer to the Cost Inflation Index table. What is the CII value for the financial year 2018-19?

Financial Year	Cost Inflation Index
2016-17	264
2017-18	272
2018-19	280
2019-20	289

(A) 264
(B) 272
(C) 280
(D) 289

Ans :

(C) 280
The provided table lists the official Cost Inflation Index (CII) values for various financial years. By looking up the row corresponding to the financial year 2018-19, one can directly read the associated CII value. According to the table, the Cost Inflation Index for the financial year 2018-19 is 280.

Oct/Nov 2022

55. Exemption under Section 54 of the Income-tax Act can be claimed by reinvesting a long-term capital gain arising from the transfer of which asset?

(A) Any capital asset
(B) Agricultural land
(C) A residential house property
(D) Listed securities

Ans :

(C) A residential house property
Section 54 provides a specific exemption from capital gains tax. This exemption is available when a long-term capital gain arises from the transfer of a residential house property, and the gain is reinvested in the purchase or construction of another residential house property in India within the specified time limits.

May/June 2018

56. To claim exemption under Section 54EC, a long-term capital gain must be reinvested in which of the following?

(A) Equity shares of a domestic start-up company recognized by the government.
(B) Bonds issued by the National Highway Authority of India (NHAI) or Rural Electrification Corporation (REC).
(C) Another residential house property purchased or constructed within the specified time.
(D) Agricultural land purchased in a non-urban area as defined by the Income-tax Act.

Ans :

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(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

Ans :

(A) Both A and R are true and R is the correct explanation of A.
The assertion is a fundamental concept in annuities. The reason correctly explains why this is the case. Because each cash flow in an annuity due occurs at the beginning of the period, it has one full extra period to compound interest compared to the corresponding cash flow in an ordinary annuity, resulting in a higher future value.

May/June 2011

92. A home loan advisor is explaining different concepts to a client. Which of the following explanations would be incorrect?
(A) "Discounting helps us find today's value of a future sum of money."
(B) "An ordinary annuity involves payments at the beginning of each month."
(C) "The Rule of 72 gives a quick estimate of how long it takes for your debt to double."
(D) "Indexation on a long-term gain will help reduce your taxable income."

Ans :

(B) "An ordinary annuity involves payments at the beginning of each month."
This statement is incorrect. An ordinary annuity is defined by payments or receipts occurring at the end of each period. Payments made at the beginning of each period characterize an annuity due. The other three statements are correct explanations of discounting, the Rule of 72, and the benefit of indexation, respectively.

Oct/Nov 2014

93. What is the key difference in the reinvestment requirement between Section 54 and Section 54F of the Income-tax Act?
(A) Section 54 requires reinvestment in specific bonds, while Section 54F requires reinvestment in a new house.
(B) Section 54 is available only to individuals, while Section 54F is available only to companies and firms.
(C) Section 54 requires reinvesting the capital gain, while Section 54F requires reinvesting the net sale consideration.
(D) The holding period for the new asset is 3 years under Section 54 and a longer period of 5 years under Section 54F.

Ans :

(C) Section 54 requires reinvesting the capital gain, while Section 54F requires reinvesting the net sale consideration.
This is the critical distinction. To get full exemption under Section 54 (gain from a house), one only needs to reinvest the amount of the capital gain. However, for Section 54F (gain from other assets), the much stricter condition is to reinvest the entire net sale consideration to claim full exemption on the capital gain.

May/June 2023

94. A client asks about the documents in a Home Information Pack (HIP). Which list contains only compulsory documents?
(A) Home Condition Report, Legal Summary, Sale Statement.
(B) Evidence of Title, Home Use/Contents Form, Legal Summary.
(C) Energy Performance Certificate, Home Condition Report, Evidence of Title.
(D) Sale Statement, Evidence of Title, Energy Performance Certificate.

Ans :

(D) Sale Statement, Evidence of Title, Energy Performance Certificate.
The HIP has a specific set of compulsory documents. These are the Sale statement providing basic information, Evidence of title proving ownership, and the Energy Performance Certificate showing energy efficiency. The Home Condition Report, Legal Summary, and Home use/contents forms are all listed as optional documents that can be included but are not required.

Oct/Nov 2006

95. In the final period of a loan amortization schedule, what is the relationship between the principal payment and the opening balance?
(A) The principal payment is exactly equal to the opening balance for that period.
(B) The principal payment is zero.
(C) The principal payment is equal to the interest payment.

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Ans :

(B) An individual or a Hindu Undivided Family (HUF) only.
The eligibility to claim the exemption under Section 54 is restricted to specific categories of taxpayers. This benefit is exclusively available to an individual or a Hindu Undivided Family (HUF) who earns a long-term capital gain from the sale of a residential house property and reinvests it into another residential house.

May/June 2009

62. What is the purpose of the Capital Gains Account Scheme (CGAS), 1988?
(A) To allow taxpayers to invest their capital gains in the stock market for tax-free returns.
(B) To allow taxpayers to deposit unutilised capital gains to claim exemption temporarily.
(C) To provide a facility for taxpayers to pay their capital gains tax in flexible monthly instalments.
(D) To enable taxpayers to secure loans from public sector banks against their capital gains.

Ans :

(B) To allow taxpayers to deposit unutilised capital gains to claim exemption temporarily.
The Capital Gains Account Scheme (CGAS) provides a mechanism for taxpayers who cannot reinvest their capital gains before filing their income tax return. By depositing the unutilised amount into a specified public sector bank account under this scheme, they can still claim the exemption, provided the funds are withdrawn and used for the intended purpose within the prescribed time limit.

Oct/Nov 2011

63. Mr. Manohar sold his house on 25th April 2017, generating a long-term capital gain of ₹2,00,000. The due date for filing his tax return is 31st July 2018. If he has not purchased or constructed a new house by this date, what must he do to claim exemption under Section 54?
(A) He must purchase a new house by the tax filing deadline of 31st July 2018.
(B) He forfeits the right to claim any exemption under Section 54 for this transaction.
(C) He must deposit ₹2,00,000 in the Capital Gains Account Scheme before 31st July 2018.
(D) He can invest the ₹2,00,000 in Section 54EC bonds before the filing deadline.

Ans :

(C) He must deposit ₹2,00,000 in the Capital Gains Account Scheme before 31st July 2018.
To claim the Section 54 exemption when the reinvestment is not complete by the ITR filing due date, the taxpayer must deposit the unutilised capital gain into an account under the Capital Gains Account Scheme. For Mr. Manohar, this means depositing the ₹2,00,000 before 31st July 2018 to preserve his eligibility for the exemption.

May/June 2010

64. What is the general tax rate for long-term capital gains on the transfer of property, excluding surcharge and cess?
(A) 10%
(B) 20%
(C) 15%
(D) 30%

Ans :

(B) 20%
Long-term capital gains arising from the transfer of property are generally taxed at a flat rate. As per the prevailing tax laws mentioned, this rate is 20%. This is often more advantageous than the tax on short-term gains, which are taxed at the individual's applicable marginal income tax slab rate, which can be higher.

Oct/Nov 2024

65. Under which circumstance is a surcharge of 10% applicable on the tax payable on long-term capital gains?
(A) If the capital gain exceeds ₹10 Lakh.
(B) It is always applicable regardless of the income level.
(C) If the taxpayer is a senior citizen.
(D) If the total income including capital gains exceeds ₹10 Lakh.

Ans :

(D) If the total income including capital gains exceeds ₹10 Lakh.
A surcharge is an additional tax levied on the amount of income tax. In the context of long-term capital gains, a surcharge at the rate of 10% is applicable, but only if the taxpayer's total income, which includes the capital gains, exceeds the threshold of ₹10 Lakh in the financial year.

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doubling time, discounting finds present value, and compounding finds future value.

Oct/Nov 2008

83. Assertion (A): The benefit of indexation is not allowed when calculating Short-Term Capital Gains.
Reason (R): Indexation is meant to provide relief from the effects of inflation over a long period, which is not relevant for short-term holdings.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

Ans :

(A) Both A and R are true and R is the correct explanation of A.
Assertion (A) is a correct statement of tax law. Reason (R) provides the correct underlying logic for this rule. The purpose of indexation is to adjust the cost of an asset for the general rise in price levels over time. This is considered relevant only for long-term assets, hence the benefit is denied for short-term capital gains.

May/June 2006

84. Which of the following is NOT excluded from the definition of a capital asset?
(A) Stock-in-trade held for business purposes.
(B) Raw materials held for business purposes.
(C) Personal effects such as wearing apparel.
(D) Jewellery held for personal use.

Ans :

(D) Jewellery held for personal use.
While 'personal effects' are generally excluded from the definition of a capital asset, the law carves out specific exceptions. Jewellery, archaeological collections, drawings, paintings, and sculptures are explicitly included and treated as capital assets even if held for personal use. Therefore, any gain from their sale is subject to capital gains tax.

Oct/Nov 2016

85. Consider the following statements regarding the tax on Long-Term Capital Gains (LTCG):
1. The general tax rate is 20% plus applicable cess.
2. Deductions under section 80C to 80U are not available against LTCG.
3. A resident individual can adjust LTCG against the basic exemption limit.
4. Surcharge is applicable if the LTCG amount exceeds ₹10 lakh.

Which of the above statements are correct?
(A) 1 and 2 only
(B) 2, 3 and 4 only
(C) 1, 2 and 3 only
(D) 1, 2, 3 and 4

Ans :

(C) 1, 2 and 3 only
Statements 1, 2, and 3 are correct. The LTCG tax rate is generally 20% + cess, Chapter VI-A deductions are not allowed, and residents can adjust LTCG against the basic exemption limit after other income. Statement 4 is incorrect; the surcharge is applicable if the total income (not just the LTCG amount) exceeds the threshold.

NODIA

May/June 2021

86. From the perspective of a mortgage advisor, why is knowledge of the time value of money crucial?
(A) To help clients choose a property with the best location and future resale value.
(B) To answer client queries on loan costs, EMIs, and future value of investments.
(C) To accurately calculate the required stamp duty and property registration fees.
(D) To complete and verify all the legal documentation for the property transfer process.

Ans :

(B) To answer client queries on loan costs, EMIs, and future value of investments.
A mortgage advisor must be proficient in time value of money concepts to provide competent advice. This knowledge is essential for calculating Equated Monthly Instalments (EMIs), explaining the total interest outgo over the loan tenure, comparing different loan products, and demonstrating the future value of related investments, thereby helping clients make informed financial decisions.

Oct/Nov 2008

87. A person takes a loan of ₹2,00,000 for 24 months. The "what-if" table shows the monthly payment at 9.00% is ₹9,136.95. What would be the approximate total interest paid over the loan's life?

allows LTCG from any asset to be invested in specified bonds. Section 54F applies when net sale consideration from an asset (not a house) is put into a house. Section 54B is for gains from agricultural land reinvested in new agricultural land.

May/June 2013

70. Identify the incorrect statement regarding the computation and taxation of capital gains.
(A) The benefit of indexation is available for Long-Term Capital Gains.
(B) Deductions under Section 80C are available against Long-Term Capital Gains.
(C) The holding period for unlisted shares to be long-term is more than 24 months.
(D) STCG is taxed at the assessee's marginal income tax slab rate.

Ans :

(B) Deductions under Section 80C are available against Long-Term Capital Gains.
While LTCG enjoys benefits like a flat tax rate and indexation, it is specifically excluded from certain deductions. The deductions available under Chapter VI-A of the Income-tax Act, which includes popular sections like 80C, 80D, etc., cannot be claimed against income from long-term capital gains. All other statements are correct.

Oct/Nov 2021

71. In the context of creating a loan calculator in Excel, what does the function `=PMT(B6/12, C6, -D6)` calculate?
(A) The total interest paid over the loan term.
(B) The loan principal amount.
(C) The monthly loan payment (EMI).
(D) The total number of payments.

Ans :

(C) The monthly loan payment (EMI).
The `PMT` function in Excel is used to calculate the periodic payment for a loan based on constant payments and a constant interest rate. In the given formula, `B6/12` is the monthly interest rate, `C6` is the total number of payments (term in months), and `-D6` is the loan amount (present value), so it calculates the monthly payment.

May/June 2024

72. Refer to the "what if" analysis table for a loan of ₹100,000 for a term of 24 months. What is the monthly payment if the interest rate is 9.50%?

Interest Rate	Term (months)	Loan Amount	Monthly Payment
9.25%	24	100,000	4579.95
9.50%	24	100,000	4591.45
9.75%	24	100,000	4602.96

(A) ₹4591.45
(B) ₹4579.95
(C) ₹4602.96
(D) ₹4614.49

Ans :

(A) ₹4591.45
The provided table demonstrates a "what if" analysis for a loan calculator. It shows how the monthly payment changes with variations in the interest rate. By looking at the row corresponding to a 9.50% interest rate for a ₹100,000 loan over 24 months, the table directly shows that the calculated monthly payment is ₹4591.45.

Oct/Nov 2017

73. In a loan amortization schedule, how is the interest component for a month calculated?
(A) The annual interest rate is multiplied by the original loan amount and divided by 12.
(B) The fixed monthly payment is subtracted from the principal component for that month.
(C) The monthly interest rate is multiplied by the beginning principal balance for that month.
(D) The total interest payable on the loan is divided by the total number of payments.

Ans :

(C) The monthly interest rate is multiplied by the beginning principal balance for that month.
The interest portion of each monthly payment is not constant; it decreases over the life of the loan. For any given month, it is calculated by applying the monthly interest rate (annual rate divided by 12) to the outstanding principal balance at the beginning of that specific month.

May/June 2008

74. How is the principal component of a monthly loan payment determined in an amortization schedule?

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(B) Bonds issued by the National Highway Authority of India (NHAI) or Rural Electrification Corporation (REC).
Section 54EC offers an exemption route where the long-term capital gain from the transfer of any capital asset can be saved from tax. To avail this benefit, the assessee must reinvest the capital gain amount in specified bonds, such as those issued by NHAI or REC, within six months from the date of transfer.

Oct/Nov 2016

57. What is the maximum amount of investment that qualifies for deduction under Section 54EC in a financial year?
(A) ₹10,00,000
(B) ₹25,00,000
(C) ₹50,00,000
(D) There is no maximum limit.

Ans :

(C) ₹50,00,000
While Section 54EC provides an avenue for saving tax on long-term capital gains, there is a cap on the amount that can be claimed as a deduction. The maximum amount of capital gains that can be invested in the specified bonds (like NHAI or REC) to claim this exemption is limited to ₹50,00,000.

May/June 2014

58. What is the minimum lock-in period for bonds purchased to claim exemption under Section 54EC?
(A) 1 year
(B) 5 years
(C) 3 years
(D) 7 years

Ans :

(C) 3 years
A critical condition for claiming and retaining the exemption under Section 54EC is that the specified bonds, in which the capital gain has been invested, must not be sold or redeemed for a certain period. The mandatory lock-in period for these bonds is 3 years from the date of their acquisition.

Oct/Nov 2007

59. Section 54F provides an exemption for long-term capital gain arising from the transfer of any capital asset other than a residential house property. What is the condition for reinvestment?
(A) The entire capital gain amount must be reinvested in specified government bonds.
(B) The full capital gain must be reinvested in units of a specified infrastructure fund.
(C) The net sale consideration must be reinvested in one residential house property.
(D) The entire net sale consideration must be reinvested in a qualifying plot of agricultural land.

Ans :

(C) The net sale consideration must be reinvested in one residential house property.
Section 54F is distinct from Section 54. It applies to LTCG from assets that are not residential houses. To claim this exemption, the assessee must reinvest the entire 'net sale consideration', not just the capital gain amount, into purchasing or constructing one residential house property in India within the stipulated time frame.

May/June 2025

60. To claim exemption under Section 54, an individual must purchase a new residential house within what period after the date of transfer of the old house?
(A) Within one year
(B) Within six months
(C) Within three years
(D) Within two years

Ans :

(D) Within two years
Section 54 specifies clear timelines for reinvestment to be eligible for the exemption. If the taxpayer chooses to purchase a new house, the acquisition must be completed either one year before the date of transfer of the old house or within two years after that date. For construction, the time limit is three years.

Oct/Nov 2019

61. The benefit of exemption under Section 54 of the Income-tax Act is available to which of the following taxpayers?
(A) Any person, including domestic and foreign companies.
(B) An individual or a Hindu Undivided Family (HUF) only.
(C) Companies and partnership firms only.
(D) Non-resident individuals and foreign nationals only.

NODIA

As per the commitments made by member banks of the Banking Codes and Standards Board of India (BCSBI), it is required that an amortization schedule be provided to borrowers. This schedule details the repayment of principal and interest over the entire duration of the loan, enhancing transparency for the customer when the loan is sanctioned.

Oct/Nov 2023

79. Which of the following statements about annuities is correct?

I. In an ordinary annuity, payments are made at the end of each period.
II. In an annuity due, payments are made at the beginning of each period.
III. The future value of an annuity due is always less than the future value of an otherwise identical ordinary annuity.

(A) Only I
(B) Only I and II
(C) Only II and III
(D) I, II and III

Ans :

(B) Only I and II
Statements I and II correctly define an ordinary annuity and an annuity due based on the timing of payments. Statement III is incorrect; because payments in an annuity due are made earlier, they earn interest for an extra period, making its future value greater than that of a comparable ordinary annuity.

May/June 2006

80. An investor uses the Rule of 144 to estimate that their investment at 8% p.a. will quadruple in 18 years (144/8 = 18). Which of the following is true?

(A) This calculation is an exact and mathematically precise method.
(B) The Rule of 144 provides an approximation for the time it takes for money to become four times the principal.
(C) The rule is designed for doubling money and cannot be used for quadrupling.
(D) The calculation is incorrect; the rule requires multiplying 144 by the interest rate.

Ans :

(B) The Rule of 144 provides an approximation for the time it takes for money to become four times the principal.
The Rule of 144 is a financial heuristic used to estimate the number of years required for an investment to quadruple, given a fixed annual rate of interest. The method involves dividing 144 by the interest rate. It provides a quick and useful approximation, not an exact figure, for financial planning purposes.

Oct/Nov 2020

81. Consider the following statements about Home Information Packs (HIPs):

1. The concept was introduced in India.
2. They contain both compulsory and optional documents.
3. An Energy Performance Certificate is an optional document.

Which of the statements is/are correct?
(A) Only 1
(B) Only 2
(C) Only 2 and 3
(D) 1, 2 and 3

Ans :

(B) Only 2
Statement 1 is incorrect; HIPs were introduced in the UK. Statement 2 is correct, as the pack includes a mix of mandatory and voluntary documents. Statement 3 is incorrect; the Energy Performance Certificate is a compulsory document within the HIP. Therefore, only the second statement accurately describes the Home Information Pack.

May/June 2011

82. Which of the following is an INCORRECT pair?

(A) Annuity Due - Payments made at the end of the period.
(B) Rule of 72 - Approximates time for money to double.
(C) Discounting - Converting future value to present value.
(D) Compounding - Converting present value to future value.

Ans :

(A) Annuity Due - Payments made at the end of the period.
An Annuity Due is characterized by payments made at the beginning of each period, not the end. Payments made at the end of the period define an Ordinary Annuity. The other pairs are correctly matched: the Rule of 72 estimates

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May/June 2017

66. Can a resident individual adjust their long-term capital gain against the basic exemption limit?

(A) No, LTCG is always taxed at a flat rate without any basic exemption benefit.

(B) Yes, but only after first adjusting all other income against the exemption limit.

(C) Yes, the LTCG is the primary income source to be adjusted against the exemption limit.

(D) This adjustment benefit is exclusively available to non-resident individuals, not residents.

Ans :

(B) Yes, but only after first adjusting all other income against the exemption limit.

A resident individual or HUF is permitted to set off their long-term capital gains against any unexhausted portion of the basic exemption limit. However, the rule specifies that all other sources of income must first be adjusted against the limit. Only the remaining balance of the exemption limit can then be used to reduce the taxable LTCG.

Oct/Nov 2005

67. Mr. Manohar, a 67-year-old resident, has pension income of ₹60,000 and a taxable LTCG of ₹2,70,000. His basic exemption limit as a senior citizen is ₹3,00,000. What is the amount of his LTCG that will be subject to tax?

(A) ₹2,70,000

(B) ₹30,000

(C) ₹2,10,000

(D) ₹0

Ans :

(B) ₹30,000

First, other income is adjusted against the basic exemption limit: ₹3,00,000 (limit) - ₹60,000 (pension) = ₹2,40,000 (remaining limit). This remaining limit is then used to offset the LTCG: ₹2,70,000 (LTCG) - ₹2,40,000 (remaining limit) = ₹30,000. This balance of ₹30,000 is the taxable portion of the LTCG.

May/June 2020

68. What is the key advantage of the reduction in the holding period for immovable property from three years to two years for it to be considered long-term?

(A) It significantly increases the amount of stamp duty collected by state governments on property.

(B) It allows sellers to benefit from indexation and a lower tax rate after only two years.

(C) It makes it a mandatory legal requirement for the buyer to hold the property for at least two years.

(D) It completely eliminates the need for sellers to use the Capital Gains Account Scheme for reinvestment.

Ans :

(B) It allows sellers to benefit from indexation and a lower tax rate after only two years.

By reducing the holding period to qualify as long-term, the government significantly lowered the tax burden for individuals selling property after two years. This allows them to avail the benefits associated with LTCG, such as the 20% tax rate and indexation, sooner than before, which is intended to promote investment and activity in the real estate sector.

Oct/Nov 2015

69. Match the following sections of the Income-tax Act with the corresponding exemption.

	List-I (Section)		**List-II (Exemption)**
P.	Section 54	1.	Gain from any asset invested in NHAI/REC bonds
Q.	Section 54EC	2.	Gain from agricultural land invested in agricultural land
R.	Section 54F	3.	Gain from residential house invested in another residential house
S.	Section 54B	4.	Net consideration from any asset (other than a house) invested in a residential house

(A) P-3, Q-1, R-4, S-2

(B) P-1, Q-3, R-2, S-4

(C) P-3, Q-2, R-1, S-4

(D) P-4, Q-1, R-3, S-2

Ans :

(A) P-3, Q-1, R-4, S-2

Section 54 relates to LTCG from a residential house reinvested in another. Section 54EC

NODIA

(A) ₹200,000.00
(B) ₹219,286.80
(C) ₹9,136.95
(D) ₹19,286.80

Ans :

(D) ₹19,286.80
First, calculate the total amount paid: Monthly Payment × Term = ₹9,136.95 × 24 = ₹2,19,286.80. The total interest paid is the total amount paid minus the original loan principal. Therefore, Interest = ₹2,19,286.80 - ₹2,00,000 = ₹19,286.80. This represents the total cost of borrowing over the two-year period.

May/June 2014

88. Consider the following steps in a loan amortization calculation:
1. Calculate interest for the period.
2. Determine the ending balance.
3. Calculate the principal portion of the payment.
4. Identify the beginning balance.

What is the correct chronological order of these steps for a single period?
(A) 4, 1, 3, 2
(B) 1, 4, 3, 2
(C) 4, 3, 1, 2
(D) 2, 1, 4, 3

Ans :

(A) 4, 1, 3, 2
The logical sequence for calculating an amortization schedule for one period is as follows: First, identify the beginning balance (4). Second, calculate the interest on that balance (1). Third, subtract the interest from the fixed payment to find the principal portion (3). Finally, subtract the principal portion from the beginning balance to get the ending balance (2).

Oct/Nov 2025

89. Which statement correctly identifies the benefit of shifting the capital gains indexation base year from 1981 to 2001?
(A) It significantly increases the amount of taxable capital gain for all taxpayers.
(B) It simplifies the tax filing process for properties sold after 2001 without changing the tax liability.
(C) It enables people to reduce their overall capital gains by improving the acquisition cost.
(D) It makes the benefit of indexation available for short-term capital gains as well as long-term.

Ans :

(C) It enables people to reduce their overall capital gains by improving the acquisition cost.
Shifting the base year forward to 2001 allows taxpayers who owned assets before 2001 to adopt the fair market value as of 2001 as their cost of acquisition. Since property values were generally higher in 2001 than in 1981, this results in a higher indexed cost of acquisition, thereby reducing the taxable capital gain and overall tax liability.

May/June 2005

90. Identify the correct statement(s) regarding capital gains exemptions:
I. Section 54G applies to shifting an industrial undertaking from an urban area to a rural area.
II. Section 54GA applies to shifting an industrial undertaking to any other urban area.
III. Section 54D applies to gains from compulsory acquisition of an industrial undertaking's assets.
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Ans :

(C) I and III only
Statement I is correct; Section 54G deals with shifting from an urban to a rural area. Statement III is also correct; Section 54D provides exemption for gains on compulsory acquisition. Statement II is incorrect; Section 54GA relates to shifting an industrial undertaking from an urban area to a Special Economic Zone (SEZ), not just any other urban area.

Oct/Nov 2019

91. Assertion (A): The future value of an annuity due is greater than that of an ordinary annuity, all other factors being equal.
Reason (R): Each payment in an annuity due is made one period earlier than in an ordinary annuity, thus earning interest for an additional period.
(A) Both A and R are true and R is the correct explanation of A.

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(A) It is the fixed monthly payment amount, which remains constant throughout the loan.
(B) It is equal to the ending balance of the previous payment period.
(C) It is the total loan amount divided by the number of months in the loan term.
(D) It is calculated as the monthly payment less the interest component for that month.

Ans :

(D) It is calculated as the monthly payment less the interest component for that month.
Each fixed monthly payment (EMI) consists of two parts: interest and principal. The interest portion is calculated first based on the outstanding balance. The remaining part of the EMI is the principal component, which directly reduces the loan's outstanding balance. Therefore, Principal = Payment - Interest.

Oct/Nov 2013

75. How is the ending balance for a period calculated in a loan amortization schedule?
(A) The beginning balance is reduced by the principal component paid in that period.
(B) The beginning balance is increased by the interest paid for that period.
(C) The beginning balance is reduced by the total monthly payment (EMI) made.
(D) The ending balance from the previous period is increased by the new interest accrued.

Ans :

(A) The beginning balance is reduced by the principal component paid in that period.
The ending balance reflects the remaining loan amount after a payment is made. Since the principal portion of the payment is what reduces the debt, the ending balance is calculated by subtracting the principal component for the current period from the balance that was outstanding at the beginning of that same period.

May/June 2015

76. Refer to the Amortization Schedule for a ₹100,000 loan at 10% for 24 months. What is the interest amount paid in Period 2?

Period	Op. Bal	Payment	Interest	Principal	Cl. Balance
1.	100,000	4,614.49	833.33	3,781.16	96,218.84
2.	96,218.84	4,614.49	801.82	3,812.67	92,406.17
3.	92,406.17	4,614.49	770.05	3,844.44	88,561.73

(A) ₹833.33
(B) ₹801.82
(C) ₹770.05
(D) ₹4614.49

Ans :

(B) ₹801.82
The amortization schedule provides a detailed breakdown of each payment. To find the interest paid in Period 2, you locate the row for 'Period 2' and read the value in the 'Interest' column. The table clearly shows that for the second period, the interest component of the payment is ₹801.82.

Oct/Nov 2012

77. From the Amortization Schedule provided, what is the principal amount repaid in Period 3?

Period	Op. Bal	Payment	Interest	Principal	Cl. Balance
1.	100,000	4,614.49	833.33	3,781.16	96,218.84
2.	96,218.84	4614.49	801.82	3,812.67	92,406.17
3.	92,406.17	4,614.49	770.05	3,844.44	88,561.73

(A) ₹3812.67
(B) ₹770.05
(C) ₹3844.44
(D) ₹4614.49

Ans :

(C) ₹3844.44
The amortization table shows how each monthly payment is split between interest and principal. For Period 3, the table shows the opening balance, the total payment, the interest portion, the principal portion, and the closing balance. The value in the 'Principal' column for the row corresponding to 'Period 3' is ₹3844.44.

May/June 2022

78. According to the commitments given by member banks of BCSBI, what must be provided to borrowers when advising on loan sanctions?
(A) A comprehensive list of alternative lenders in the same geographical area.
(B) An amortization schedule for the duration of the loan.
(C) A mandatory discount on the applicable interest rate for the first year.
(D) A free credit report from a recognized credit information company.

Ans :

(B) An amortization schedule for the duration of the loan.

NODIA

(D) The principal payment is half of the opening balance.

Ans :

(A) The principal payment is exactly equal to the opening balance for that period.
In the very last payment period, the interest is calculated on the small remaining opening balance. The principal portion of this final payment is precisely the amount needed to clear the remaining debt. Therefore, the principal component will be equal to the opening balance, resulting in a closing balance of zero.

May/June 2018

96. Match the financial term with its correct description.

	List-I (Term)		List-II (Description)
P.	Compounding	1.	A series of fixed payments over a fixed period
Q.	Annuity	2.	Process of determining the present value of future cash flows
R.	Discounting	3.	Process of determining the future value of present cash flows
S.	Indexation	4.	Adjusting the cost of an asset for inflation

(A) P-3, Q-1, R-2, S-4
(B) P-2, Q-4, R-3, S-1
(C) P-3, Q-2, R-1, S-4
(D) P-4, Q-1, R-2, S-3

Ans :

(A) P-3, Q-1, R-2, S-4
Compounding (P) is the process of finding future value (3). An annuity (Q) is a series of fixed payments (1). Discounting (R) is the process of finding the present value (2). Indexation (S) is the adjustment of an asset's cost to account for inflation, used in calculating long-term capital gains (4).

Oct/Nov 2022

97. Which of the following statements are correct?
I. Mortgage advice in India is a licensed and regulated profession.
II. The Rule of 115 is used to approximate the time for an investment to triple.
III. The base year for the Cost Inflation Index is 2001-02.
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II and III

Ans :

(B) II and III only
Statement I is incorrect; mortgage advice in India is unregulated. Statement II is correct; the Rule of 115 estimates the tripling time of an investment. Statement III is also correct; the base year for the Cost Inflation Index was shifted to 2001-02, with a base value of 100.

May/June 2009

98. From the example of Mr. Manohar (a senior citizen), his tax on the taxable LTCG of ₹30,000 was ₹6,000 (at 20%). A rebate under section 87A was applied. What is the condition for this rebate's availability?
(A) The rebate is available if total income does not exceed ₹3,50,000.
(B) The rebate is available to all individual taxpayers.
(C) The rebate is only for senior citizens over 80 years old.
(D) The rebate is available if the tax liability is over ₹10,000.

Ans :

(A) The rebate is available if total income does not exceed ₹3,50,000.
The rebate under section 87A is a relief for small taxpayers. It is available only to resident individuals whose total income during the financial year does not exceed a specified limit, which is mentioned as ₹3,50,000 in the text. Mr. Manohar's total income was ₹3,30,000, making him eligible for this rebate.

Oct/Nov 2010

99. Consider the four main calculations in a loan amortization schedule. Which one is calculated last for any given period?
(A) Beginning balance
(B) Interest component
(C) Ending balance
(D) Principal component

Ans :

(C) Ending balance

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(D) The Institution of Valuers, Delhi, a key professional organization dedicated to the practice and standards of valuation.

Ans :

(D) The Institution of Valuers, Delhi, a key professional organization dedicated to the practice and standards of valuation.
The Institution of Valuers, located in Delhi, is a key professional organization that provides membership and fellowship to practicing valuers. Many banks and financial institutions mandate that valuers not only be registered under the Wealth Tax Act but also hold membership with this professional body, ensuring adherence to professional standards and ethics in valuation practice.

Oct/Nov 2015

5. When using the Income Capitalisation Method for valuing agricultural land, what is the basis for determining the income?
(A) Assuming the land is immediately sold at its current, officially established market price.
(B) Assuming the land is successfully rezoned and converted from agricultural to industrial use.
(C) Assuming the land is leased out to a cultivator on a standard crop-sharing arrangement.
(D) Assuming the land is fully developed into a multi-unit residential housing project.

Ans :

(C) Assuming the land is leased out to a cultivator on a standard crop-sharing arrangement.
The Income Capitalisation Method for agricultural land valuation determines income by assuming the land is leased on a crop-sharing arrangement. The net annual income is calculated after deducting expenses like local taxes, maintenance, and input costs. This net income is then capitalized at an appropriate interest rate to arrive at the land's estimated value.

May/June 2013

6. In the context of the Income Capitalisation Method, what does the factor 'Years Purchase' (YP) represent?
(A) The total number of years needed for rental income to fully recover the initial property investment.
(B) A multiplier used to convert a property's net annual income into its capitalized value.
(C) The total estimated useful lifespan or age of the property as determined by the appraiser.
(D) The annual percentage rate of depreciation that is applied against the property's capital value.

Ans :

(B) A multiplier used to convert a property's net annual income into its capitalized value.
'Years Purchase' (YP) is a multiplier used to find the present value of future annual income. It represents the price an investor would pay to acquire the right to receive the property's yearly income. For an asset in perpetuity that does not depreciate, the YP is calculated as the reciprocal of the interest rate (1/i).

Oct/Nov 2021

7. What is the formula to calculate the 'Years Purchase' (YP) for an asset that provides annual income in perpetuity and does not depreciate, where 'i' is the rate of interest?
(A) YP = 1 + i
(B) YP = 1 - i
(C) YP = i / (1+i)
(D) YP = 1 / i

Ans :

(D) YP = 1 / i
The factor 'Years Purchase' (YP) is used to determine the capitalized value of a stream of income. For an asset that is assumed to generate income in perpetuity and does not depreciate, such as freehold land, the YP is calculated simply as the reciprocal of the market rate of interest, expressed as YP = 1/i.

Oct/Nov 2008

8. Which valuation method for agricultural land relies on the sale value of similar lands in the immediate vicinity?
(A) Sales Statistics Method
(B) Income Capitalisation Method
(C) Development Method
(D) Cost-Based Method

Ans :

(A) Sales Statistics Method
The Sales Statistics Method, also known as the comparative method, bases the valuation on the recent, comparable sale values of similar agricultural properties located nearby. For a valid comparison, factors such as the size of the

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CHAPTER 30
Valuation of Real Property

Oct/Nov 2011

1. In the context of property valuation, which statement best distinguishes 'value' from 'cost'?

(A) Value is the historical amount spent to acquire or produce an asset, while cost signifies its projected future income-generating potential.

(B) Value represents the present worth of an asset's future benefits, while cost is the past expenditure to create it.

(C) Value and cost are functionally interchangeable concepts, with both terms representing the current agreed-upon market price of the property.

(D) Cost is the total market price including the seller's profit margin, whereas value is a fixed, non-negotiable amount determined by official government guidelines.

Ans :

(B) Value represents the present worth of an asset's future benefits, while cost is the past expenditure to create it.

Valuation assesses the worth of a property based on future income and advantages. This concept of 'value' is distinct from 'cost,' which represents the historical amount spent on producing the asset. While cost is related to the past, value is forward-looking. Price, influenced by demand, supply, and profit, is not necessarily equal to either.

May/June 2024

2. Which of the following are considered the essential attributes for a real property to possess value?

I. Utility
II. Scarcity
III. Demand
IV. Transferability

(A) I and II only
(B) I, II, and III only
(C) II, III, and IV only
(D) I, II, III, and IV

Ans :

(D) I, II, III, and IV

For a real property to have value, it must possess four key attributes. These are utility (usefulness for satisfying needs), scarcity (limited supply), demand (desire from buyers), and transferability (the ability to convey ownership to a purchaser). The absence of any of these attributes diminishes or eliminates the property's value in the market.

Oct/Nov 2005

3. Under which legislative act does the Income-tax Department grant registration to valuers in India?

(A) The Income Tax Act, 1961
(B) The Companies Act, 2013
(C) The Wealth Tax Act, 1957
(D) The Registration Act, 1908

Ans :

(C) The Wealth Tax Act, 1957

The Income-tax Department manages the registration of valuers based on their technical background and experience. This registration is granted under the provisions of Section 34AB of the Wealth Tax Act, 1957. The department classifies valuers into distinct categories, such as those for immovable property, agricultural land, plant and machinery, and jewellery.

May/June 2020

4. Which professional body, based in Delhi, grants membership to practicing valuers, which is often a requirement by banks in addition to statutory registration?

(A) The Institute of Chartered Accountants of India (ICAI), a statutory body that also accredits specialized property valuers.

(B) The Institution of Engineers (India), a prominent professional society with a specialized division for valuation engineering.

(C) The Bar Council of India, the regulatory body that oversees legal professionals who are often involved in property transactions.

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Ans :

(C) The constraint on the land's economic value imposed by the type of structure built upon it.
In this context, the encumbrance factor refers to the value limitation imposed on the land due to the specific type of building erected on it. The building's earning capacity determines the land's value, and if the structure does not allow for the land's full economic potential to be realized, it is said to encumber the land.

Oct/Nov 2018

22. For which type of properties is the 'Valuation based on cost' method generally adopted, especially when comparable sale instances are unavailable?
(A) Commercial shopping malls and high-street retail stores.
(B) Hospitals, police stations, and public libraries.
(C) Newly constructed residential apartments in large complexes.
(D) Luxury hotels and exclusive holiday resorts.

Ans :

(B) Hospitals, police stations, and public libraries.
The valuation based on cost method is often used for properties that are not typically bought and sold on the open market, making comparable sales data unavailable. This includes specialized public or institutional properties like hospitals, police stations, libraries, and town halls. It is also used for purposes like fire insurance valuation.

May/June 2007

23. The 'Development Method' of valuation is most useful for properties that possess what specific characteristic?
(A) A long and stable history of generating consistent rental income.
(B) A location within a fully developed, static, and unchanging neighborhood.
(C) A highly specialized use that cannot be easily changed, such as a brewery.
(D) Hidden value due to the potential for development or re-development.

Ans :

(D) Hidden value due to the potential for development or re-development.
The Development Method assesses the potential value of a property if it were developed to its best possible use through necessary modifications. It is particularly useful for properties that have unrealized or 'hidden' value that can be unlocked through development or re-development, such as an old building on a prime plot with unutilized FSI.

Oct/Nov 2025

24. What is the other name for the valuation method used for specialized buildings, which is based on the capitalization of average net profit?
(A) The balance-sheet method
(B) The cost-sheet method
(C) The comparative sales method
(D) The direct capitalization method

Ans :

(A) The balance-sheet method
The valuation of specialized buildings like hotels or cinemas is based on capitalizing the average net profit over the past few years. This approach is also known as the balance-sheet method. The chosen capitalization rate must reflect not only the normal rate of return but also the specific risks and uncertainties associated with that particular trade.

May/June 2012

25. According to the text, what is the normal range for the life of buildings?
(A) 20 to 40 years
(B) 80 to 120 years
(C) 40 to 80 years
(D) 100 to 150 years

Ans :

(C) 40 to 80 years
The durability and useful life of a structure depend on factors like construction materials, maintenance, and climatic conditions. While it can be extended with proper upkeep, the text states that the normal life of buildings typically varies from 40 years to 80 years, after which they may cease to yield the desired income.

Oct/Nov 2014

26. What is the primary purpose of a 'sinking fund' in property management?
(A) To accumulate capital for replacing the property at the end of its designated useful life.
(B) To pay for annual recurring expenses like property taxes and mandatory insurance

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holding, physical features, soil quality, and title conditions of the properties must be carefully considered and adjusted for.

May/June 2006

9. Which of the following is NOT a factor typically considered when valuing vacant urban land?

(A) The property's specific location and its nearness to amenities like schools and transport hubs.
(B) Developmental controls imposed by local authorities, such as the Floor Space Index (FSI).
(C) The number of previous owners and the complete history of transactions for the specific land parcel.
(D) The physical characteristics of the land parcel, including its soil quality and water availability.

Ans :

(C) The number of previous owners and the complete history of transactions for the specific land parcel.
When valuing vacant urban land, its development potential is key. Factors like location, size, shape, usage restrictions (FSI), soil quality, frontage, and encumbrances are critical. The number of previous owners is a historical title detail and does not directly influence the land's current market value or its potential for future development.

Oct/Nov 2017

10. What does the term 'Floor Space Index' (FSI) or 'Floor Space Area' (FAR) refer to in property valuation?

(A) The ratio of the total built-up area of all floors to the total area of the land.
(B) The ratio of the building's total constructed height to its total plot width.
(C) The total constructed area of only the ground floor of the building on a plot.
(D) An official index of construction material costs published for a specific city or area.

Ans :

(A) The ratio of the total built-up area of all floors to the total area of the land.
Floor Space Index (FSI), also known as Floor Space Area (FAR), is a crucial developmental control regulation. It defines the ratio of the total built-up area, inclusive of all floors, to the total area of the plot of land on which the building is constructed. A higher permissible FSI generally leads to a higher land value.

May/June 2008

11. In the context of urban land valuation, what is 'Available FSI'?

(A) The total Floor Space Index that has already been fully utilized by the existing structure on the land.
(B) The maximum Floor Space Index allowed by the local authority for any building in the entire city.
(C) The specific Floor Space Index that is applicable only for developing commercial properties on a plot.
(D) The difference between the permissible FSI for a plot and the FSI that has already been utilized.

Ans :

(D) The difference between the permissible FSI for a plot and the FSI that has already been utilized.
'Available FSI' represents the untapped development potential of a plot of land. It is calculated as the difference between the maximum Floor Space Index (FSI) permitted by the local authority for that plot and the FSI that has already been consumed or utilized by any existing structures on the same plot of land.

NODIA

Oct/Nov 2013

12. According to Vastu Shastra principles mentioned in the context of land valuation, which facing plots typically command a premium?

(A) West and South facing plots
(B) North and East facing plots
(C) South and East facing plots
(D) North and West facing plots

Ans :

(B) North and East facing plots
In India, many property buyers consider Vastu Shastra principles, which can influence market value. According to the provided text, plots that are North-facing and East-facing are generally considered more auspicious and, as a result, often command a premium price in the market compared to plots that are West-facing or South-facing.

For any period in an amortization schedule, the calculation follows a logical order. The beginning balance is the starting point. From this, the interest is calculated. Then, the principal portion is derived by subtracting interest from the payment. Finally, the ending balance is determined by subtracting the principal portion from the beginning balance, making it the last step.

May/June 2017

100. Which of the following statements provides the most accurate summary of the key topics covered?

(A) Mortgage advice in India is unregulated; the Rule of 72 calculates exact doubling time; LTCG is taxed at marginal rates.

(B) HIPs are mandatory in India; indexation applies to STCG; the Excel PMT function calculates loan principal.

(C) The base year for CII is 1981-82; Section 54 exemption is available to all taxpayers; amortization schedules are optional for banks to provide.

(D) Mortgage advice in India is unregulated; TVM concepts are crucial for advisors; capital gains have rules for indexation and exemptions.

Ans :

(D) Mortgage advice in India is unregulated; TVM concepts are crucial for advisors; capital gains have rules for indexation and exemptions.
This statement correctly summarizes the main themes. It accurately notes the lack of regulation for mortgage advice in India, the importance of time value of money (TVM) concepts for loan advisors, and the detailed tax treatment of capital gains, including the key features of indexation and the various exemptions available to taxpayers.

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(C) For properties where the land value is known to be a very small component of the total property value.
(D) For vacant plots of land that have no existing structures built on them and are ready for development.

Ans :

(B) For properties with newly built structures having negligible or minimal depreciation.
The Extraction Method derives land value by subtracting the estimated building value from the total sale price of a comparable developed property. The accuracy of this method is highly dependent on the precision of the depreciation estimate for the building. Therefore, it is most reliable for newly constructed properties where depreciation is minimal or negligible.

Oct/Nov 2023

18. Based on the provided text, what is the primary purpose of 'Guideline Value' published by the government?
(A) To serve as a benchmark for calculating statutory charges like stamp duty and property tax.
(B) To determine the maximum loan-to-value ratio a bank can offer for a mortgage against a property.
(C) To set the mandatory minimum sale price for all private real estate transactions in a specific area.
(D) To estimate the average per-square-foot cost of construction for new buildings in a particular locality.

Ans :

(A) To serve as a benchmark for calculating statutory charges like stamp duty and property tax.
According to the source, the government publishes guideline values for specific periods and locations. The primary purpose of these values is to provide a standardized basis for assessing and levying various statutory charges. These include stamp duty on property transfers, annual property tax, and wealth tax, ensuring a uniform valuation standard for fiscal purposes.

May/June 2016

19. When valuing a property that is generally sold as a single piece (land with building), the Town Planning Department often uses a 'composite rate'. Which valuation method is this associated with?
(A) Rent Capitalisation Method
(B) Valuation based on cost
(C) Comparative Method
(D) Development Method

Ans :

(C) Comparative Method
The Comparative Method is generally adopted by bodies like the Town Planning Department for valuing properties sold as a single unit of land with a building. In this context, a 'composite rate' is used, which indicates the combined rate for the land and the structure on it, derived from sale rates of similar nearby properties.

Oct/Nov 2009

20. The 'Valuation based on profits' method is most suitable for which of the following property types?
(A) Residential flats and vacant urban plots.
(B) Government office buildings and public schools.
(C) Agricultural land and rural farmhouses.
(D) Hotels, cinema houses, and restaurants.

Ans :

(D) Hotels, cinema houses, and restaurants.
The valuation method based on profits is specifically applied to properties used for conducting trade or business, where value is directly linked to profitability. Examples include hotels, cinema houses, and restaurants. The valuation is derived by capitalizing the net profit of the business entity for a certain period or in perpetuity.

May/June 2023

21. In the 'Valuation based on cost' method for a land with building, what does the 'encumbrance factor' represent?
(A) The physical deterioration and decay of the building structure over a period of time.
(B) The legal restrictions on the property title, such as existing liens, easements, or mortgages.
(C) The constraint on the land's economic value imposed by the type of structure built upon it.
(D) The total administrative cost of obtaining necessary government permits and licenses for construction.

NODIA

May/June 2015

13. Which method for valuing open urban land is described as the most popular and is based on recent sale-purchase transactions of similar properties in the vicinity?
(A) Rent Capitalisation Method
(B) Belting Method
(C) Comparative Method
(D) Extraction Method

Ans :

(C) Comparative Method
The Comparative Method is the most widely used and popular approach for valuing open land. It determines the value by referencing a fair rate derived from recent sale and purchase transactions of comparable properties situated nearby. The valuer must use experience and judgment, as sale deed values may not always reflect the true market rate.

Oct/Nov 2012

14. In the Rent Capitalisation Method for valuing open land, how is the value of the land derived?
(A) By directly multiplying a comparable property's net annual rental income by the applicable Years Purchase factor.
(B) By adding the building's total estimated replacement cost to the capitalised value of the bare land's ground rent.
(C) By adopting the official guideline value for the land as published by the local government's registration department.
(D) By subtracting the building's depreciated cost from a comparable property's total capitalised value.

Ans :

(D) By subtracting the building's depreciated cost from a comparable property's total capitalised value.
The Rent Capitalisation Method for open land first determines the total capitalised value of a nearby rented property by multiplying its net income by the Years Purchase factor. From this total value, the depreciated replacement cost of the building is subtracted. The remaining amount is considered to be the value of the land component.

May/June 2011

15. What is the typical range of net rental income as a percentage of property value for residential properties, as mentioned in the text?
(A) 4% to 6.5%
(B) 2% to 4.5%
(C) 6% to 9%
(D) 8% to 10.5%

Ans :

(A) 4% to 6.5%
When using the Rent Capitalisation Method, the net rental income is a key variable. On average, this income varies based on property type and location. For residential properties, the typical range for net rental income is stated to be between 4% and 6.5% of the property's value, depending on the specific location and its amenities.

Oct/Nov 2020

16. For which type of plots is the 'Belting Method' of valuation specifically adopted?
(A) Small, regularly shaped corner plots that possess a very high degree of road frontage.
(B) Large plots with lesser frontage and more depth extending away from the main road.
(C) Plots that have existing old structures which are designated for immediate demolition.
(D) Plots that have been officially designated exclusively for commercial or industrial use.

Ans :

(B) Large plots with lesser frontage and more depth extending away from the main road.
The Belting Method is a specialized valuation technique designed for large plots that have a disproportionately small frontage compared to their substantial depth. This method involves dividing the land into several 'belts' parallel to the frontage, with progressively lower rates applied to the belts that are farther away from the main road.

May/June 2022

17. The 'Extraction Method' of land valuation is generally most accurate under which of the following conditions?
(A) For properties with old, highly depreciated buildings where the building value is a low proportion of total value.
(B) For properties with newly built structures having negligible or minimal depreciation.

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premiums.
(C) To fund minor, day-to-day repairs and routine maintenance activities of the property.
(D) To cover the cost of advertising and marketing the property for rent or for eventual sale.

Ans :

(A) To accumulate capital for replacing the property at the end of its designated useful life.
A sinking fund is a fund set aside specifically for recovering the original capital investment in a property. At the end of a structure's useful life, when it needs to be replaced or rebuilt, the accumulated amount in the sinking fund is used for this purpose, ensuring the continuation of income generation from the asset.

May/June 2019

27. A property was built with an original capital of ₹15 Lakh. The sinking fund factor for redemption of Re. 1 at the end of 25 years at a 5% compound interest rate is 0.021. What is the annual amount that needs to be set aside for the sinking fund?
(A) ₹21,500
(B) ₹15,000
(C) ₹75,000
(D) ₹31,500

Ans :

(D) ₹31,500
The annual sinking fund contribution is calculated by multiplying the original capital cost by the sinking fund factor. In this case, the original capital is ₹15,00,000 and the given factor is 0.021. Therefore, the annual amount to be set aside is ₹15,00,000 × 0.021 = ₹31,500. This ensures the capital is recovered over 25 years.

Oct/Nov 2006

28. In valuation practice, when a dual rate is used, the multiplying factor (YP) is determined based on two different rates of interest. What do these two rates represent?
(A) One rate for calculating rental income from residential tenants and another rate for commercial tenants.
(B) One rate for the expected return on income and another, lower rate for the redemption of capital.
(C) One rate for the first half of the property's estimated life and another for the second half.
(D) One rate for calculating gross annual income and another, different rate for calculating net income.

Ans :

(B) One rate for the expected return on income and another, lower rate for the redemption of capital.
In practice, instead of a separate sinking fund calculation, a dual-rate approach is often used. Valuation tables provide a Years Purchase (YP) factor based on two interest rates: one representing the expected rate of return on the income from the property, and another, typically lower rate, for the redemption of capital via a sinking fund.

May/June 2021

29. A building losing value due to the availability of new buildings with modular kitchens, better ventilation, and lifts is an example of what type of depreciation?
(A) Physical deterioration
(B) Structural decay
(C) Obsolescence
(D) Wear and tear

Ans :

(C) Obsolescence
Depreciation is a loss in value. While physical deterioration is due to wear and tear, obsolescence occurs when a building becomes outdated. The availability of new buildings with improved amenities like modular kitchens and lifts makes older buildings less desirable, causing them to lose value due to functional and technological obsolescence, not physical decay.

Oct/Nov 2010

30. Which method of calculating depreciation allocates the cost uniformly over the life of the property and is commonly used for tax purposes?
(A) Written Down Value Method
(B) Sum-of-the-Years' Digits Method
(C) Sinking Fund Method
(D) Straight Line Method

Ans :

(D) Straight Line Method
The Straight Line Method is a simple and widely adopted approach for calculating depreciation. It allocates the depreciable amount (Original Cost minus Salvage Value) evenly over the estimated

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useful life of the property. Due to its simplicity, it is generally used for preparing financial statements and for tax purposes, providing a consistent annual depreciation charge.

May/June 2005

31. What is the correct formula for calculating annual depreciation (D) using the Straight Line Method?

(A) D = (C - S) / n
(B) D = (C + S) / n
(C) D = C / n
(D) D = S / n

Ans :

(A) D = (C - S) / n

The formula for calculating annual depreciation under the Straight Line Method is D = (C-S)/n. In this formula, 'D' represents the annual depreciation amount, 'C' is the original cost of the asset, 'S' is its estimated salvage value at the end of its useful life, and 'n' is the life of the asset in years.

Oct/Nov 2022

32. What is the core assumption of the Written Down Value (WDV) method of depreciation?

(A) The property loses an equal, fixed amount of its original value during each year of its life.
(B) The property loses value by a constant percentage of its book value at the beginning of the year.
(C) Depreciation is charged at a lower rate in the early years and a higher rate in later years.
(D) The salvage value of the property is always assumed to be zero for the purpose of the calculation.

Ans :

(B) The property loses value by a constant percentage of its book value at the beginning of the year.

The Written Down Value (WDV) or Declining Balance Method assumes that a property loses value by a fixed percentage of its book value at the start of each year. This results in higher depreciation charges in the early years and progressively lower charges in later years, as the capital value of the asset decreases annually.

NODIA

May/June 2018

33. What is the primary objective of charging higher depreciation in the initial years, as is done in the Written Down Value (WDV) method?

(A) To align with the typically increasing rental income that a property generates over its lifetime.
(B) To balance low repair costs in early years with higher repair costs in later years against income.
(C) To simplify the complex accounting process required in the final years of the asset's useful life.
(D) To quickly reduce the book value of the asset to zero for a complete tax write-off in a short period.

Ans :

(B) To balance low repair costs in early years with higher repair costs in later years against income.

The WDV method charges higher depreciation in the early years when the asset typically yields higher income and requires lower repair and maintenance costs. Conversely, it charges lower depreciation in later years when repair costs tend to increase. This approach helps in balancing the total charge (depreciation + repairs) against income more evenly over the asset's life.

Oct/Nov 2016

34. The Written Down Value (WDV) of an asset is calculated using the formula

$$WDV = C(1-p)^n$$

What does the variable 'p' represent in this formula?

(A) The fixed percentage at which depreciation is charged.
(B) The estimated salvage value of the asset.
(C) The principal amount of the loan taken for the asset.
(D) The period of the asset's remaining life in years.

Ans :

(A) The fixed percentage at which depreciation is charged.

In the formula $WDV = C(1-p)^n$, 'C' is the original cost, and 'n' is the life in years. The variable 'p' represents the fixed percentage or rate at which depreciation is charged annually on the declining balance of the asset. It's important

to note that for this specific formula, the salvage value is assumed to be zero.

May/June 2014

35. According to statistics from the Union Ministry of Health and Family Welfare cited in the text, what was the life expectancy for females in India during the 2011-2015 period?
(A) 62.3 years
(B) 63.9 years
(C) 69.6 years
(D) 67.3 years

Ans :

(C) 69.6 years
The text provides statistics on life expectancy in India to set the context for the needs of senior citizens. It states that life expectancy increased from the 2001-2005 period to the 2011-2015 period. For the 2011-2015 period, the life expectancy for females was 69.6 years, while for males it was 67.3 years.

Oct/Nov 2007

36. What is the primary financial challenge faced by many senior citizens in India, which Reverse Mortgage Loans aim to address?
(A) Lacking clear legal ownership of a residential property that could be used as loan collateral.
(B) Facing persistent difficulty in finding suitable tenants to generate a steady stream of rental income.
(C) Managing high income tax liabilities that are levied on their fixed pension and other retirement incomes.
(D) Possessing a valuable property but having insufficient liquid funds for regular living expenses.

Ans :

(D) Possessing a valuable property but having insufficient liquid funds for regular living expenses.
Many senior citizens have invested their life savings in real estate, leaving them with valuable but non-income generating assets. They often lack sufficient liquid funds to cover living expenses, especially with rising inflation and healthcare costs. Reverse Mortgage Loans are designed to address this specific issue by providing liquidity against their property.

May/June 2025

37. How does the borrower's stake in the property change over time in a Reverse Mortgage Loan, as compared to a normal housing loan?
(A) The borrower's stake increases over time in both a normal loan and a reverse mortgage.
(B) The borrower's stake decreases in a normal loan but increases in a reverse mortgage.
(C) The borrower's stake increases in a normal loan but decreases in a reverse mortgage.
(D) The borrower's stake remains constant in a reverse mortgage but decreases in a normal loan.

Ans :

(C) The borrower's stake increases in a normal loan but decreases in a reverse mortgage.
In a normal housing loan, the borrower's stake (equity) increases as the loan is paid down through EMIs. In a Reverse Mortgage Loan, the position is the opposite. The borrower receives payments, causing the loan balance to increase over time. Consequently, the borrower's stake in the property gradually decreases as the lender's stake grows.

Oct/Nov 2019

38. The Reverse Mortgage Loan (RML) scheme was developed by which institution to help senior citizens in India?
(A) Reserve Bank of India (RBI)
(B) National Housing Bank (NHB)
(C) State Bank of India (SBI)
(D) Housing and Urban Development Corporation (HUDCO)

Ans :

(B) National Housing Bank (NHB)
The Reverse Mortgage Loan (RML) scheme is a product specifically developed by the National Housing Bank (NHB). It was designed to enable senior citizens (above 60 years) to receive periodical payments from a lender by mortgaging their house, while still retaining ownership and the right to occupy it throughout their lifetime.

May/June 2009

39. Which of the following is a mandatory eligibility criterion for an individual to avail a Reverse Mortgage Loan (RML)?
(A) Must be an Indian Citizen below 60 years of age.

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Oct/Nov 2025

66. Identify the INCORRECT statement regarding the valuation of real property.

(A) Floor Space Index (FSI) is the ratio of the total land area to the total built-up area on that land.

(B) Valuation is practiced by qualified professionals like engineers and architects with specialized knowledge.

(C) Cost is a fact related to past expenditure while value refers to the future benefits of the property.

(D) For agricultural land valuation, the Sales Statistics Method uses comparable sales in the vicinity.

Ans :

(A) Floor Space Index (FSI) is the ratio of the total land area to the total built-up area on that land.

Floor Space Index (FSI) or Floor Area Ratio (FAR) is defined as the ratio of the total built-up area of all floors of a building to the area of the plot of land on which it is built. The statement incorrectly reverses this relationship, making it the wrong definition. All other statements are correct.

May/June 2012

67. Match the valuation method (List-I) with its most appropriate description (List-II).

List-I (Method)

P. Belting Method

Q. Extraction Method

R. Development Method

S. Valuation based on profits

List-II (Description)

1. Assesses potential value from re-development.
2. Used for hotels and cinemas based on net profit.
3. Used for large plots with less frontage and more depth.
4. Derives land value by subtracting building cost from total price.

(A) P-3, Q-4, R-1, S-2

(B) P-1, Q-2, R-3, S-4

(C) P-3, Q-4, R-1, S-2

(D) P-2, Q-4, R-1, S-3

Ans :

(C) P-3, Q-4, R-1, S-2

The correct matching is: P (Belting Method) matches with 3 (for large plots with less frontage). Q (Extraction Method) matches with 4 (subtracting building cost). R (Development Method) matches with 1 (assessing re-development potential). S (Valuation based on profits) matches with 2 (used for business properties like hotels).

Oct/Nov 2014

68. Which of the following statements is correct regarding the valuation of specialized buildings like breweries or motels?

(A) They are valued using the standard comparative method based on local residential sales data.

(B) Intangible assets like goodwill and management skill are legally ignored in their valuation.

(C) The valuation is primarily based on the depreciated replacement cost of the physical structure alone.

(D) Their valuation relies on capitalizing average net profit and is also known as the balance-sheet method.

Ans :

(D) Their valuation relies on capitalizing average net profit and is also known as the balance-sheet method.

Specialized buildings are valued by specialists in that trade. The valuation is based on the capitalization of the average net profit over the past few years, a method also known as the balance-sheet method. This approach considers the business as a going concern, including factors like goodwill and management, unlike other methods.

May/June 2019

69. Assertion (A): The Written Down Value (WDV) method of depreciation is generally adopted by industrial units.

Reason (R): The WDV method provides the advantage of lower income-tax in the initial years.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).

(C) (A) is true but (R) is false.

(D) (A) is false but (R) is true.

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Ans :

(B) I, II, and III only
The quantum of the Reverse Mortgage Loan is determined by a combination of three key factors. These are the age of the borrower (older borrowers may get a higher amount), the professionally appraised value of the property, and the prevalent interest rates offered by the lending institution. The borrower's other income sources are not a primary determinant.

Oct/Nov 2005

44. What is the maximum cap on monthly payments under RML, and what is the maximum lump-sum payment restricted to for medical treatment?
(A) A monthly cap of ₹25,000; a lump-sum cap of ₹10 Lakh for specified medical needs.
(B) A monthly cap of ₹50,000; a lump-sum cap of ₹15 Lakh for specified medical needs.
(C) A monthly cap of ₹75,000; a lump-sum cap of ₹20 Lakh for specified medical needs.
(D) A monthly cap of ₹1,00,000; a lump-sum cap of ₹25 Lakh for specified medical needs.

Ans :

(B) A monthly cap of ₹50,000; a lump-sum cap of ₹15 Lakh for specified medical needs.
The RML scheme has specific limits on disbursements. The maximum monthly payment a borrower can receive is capped at ₹50,000. For specific needs like medical treatment for self, spouse, or dependents, a lump-sum payment is allowed, but it is restricted to 50% of the total eligible loan amount, subject to an overall cap of ₹15 Lakh.

May/June 2020

45. What is the maximum period for which payments can be made to the reverse mortgage borrower under the RML scheme?
(A) 10 years
(B) 15 years
(C) 20 years
(D) For the entire lifetime of the borrower.

Ans :

(C) 20 years
The RML scheme specifies a maximum tenure for the disbursement of loan payments to the borrower. This maximum period over which the reverse mortgage borrower can receive payments, either periodically or as a lump sum, is set at 20 years. After this period, the payments cease, though the borrower can continue to occupy the house.

Oct/Nov 2015

46. Under which section of the Income-tax Act, 1961, are the payments received by a borrower under RML exempt from income tax?
(A) Section 80C
(B) Section 10(10D)
(C) Section 54EC
(D) Section 10(43)

Ans :

(D) Section 10(43)
The payments received by a senior citizen under a Reverse Mortgage Loan are not treated as taxable income. The scheme provides a specific tax benefit, and all such payments, whether periodic or lump-sum, are exempt from income tax under the provisions of Section 10(43) of the Income-tax Act, 1961, making it more attractive for borrowers.

May/June 2013

47. When is a borrower under a reverse mortgage scheme liable to pay income tax in the nature of capital gains tax?
(A) At the point of alienation of the mortgaged property by the mortgagee to recover the loan.
(B) At the time of receiving each individual monthly payment from the lending institution.
(C) Annually, on the notional increase in the property's professionally appraised value.
(D) Never, as the entire transaction from inception to settlement is completely exempt from capital gains tax.

Ans :

(A) At the point of alienation of the mortgaged property by the mortgagee to recover the loan.
The transfer of a capital asset in a reverse mortgage transaction is not considered a transfer for tax purposes initially. The liability for capital gains tax arises only at the very end of the process, specifically at the point when the lender (mortgagee) sells or alienates the mortgaged property to recover the outstanding loan amount.

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mortgaged, which forms the basis for determining the total eligible loan amount.

Oct/Nov 2012

56. According to the CPWD manual cited in the 'Let Us Sum Up' section, what is the normal life of an RCC framed structure?
(A) 75 years
(B) 30 years
(C) 55 years
(D) 90 years

Ans :

(A) 75 years
The summary section provides specific figures for the normal life of different types of building structures as per the CPWD manual. For a Reinforced Cement Concrete (RCC) framed structure, the normal estimated life is stated to be 75 years. This is higher than the 55 years for a load-bearing wall structure.

May/June 2011

57. What is the normal percentage of the actual cost of a building that is typically taken as its 'Salvage Value'?
(A) 0%
(B) 5%
(C) 10%
(D) 20%

Ans :

(C) 10%
Salvage value is the estimated value of the materials of a structure when it is demolished at the end of its useful life. For the purpose of depreciation calculations and valuation, the text states that the salvage value is normally assumed to be 10% of the actual original cost of constructing the building.

Oct/Nov 2020

58. Which of the following is NOT listed as one of the broad methods of valuation in the 'Let Us Sum Up' section?
(A) Guideline value method
(B) Comparative method
(C) Rent capitalization method
(D) Development method

Ans :

(A) Guideline value method

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The summary section lists five broad methods for real property valuation. These are (i) Comparative method, (ii) Rent capitalization method, (iii) Profits capitalization method, (iv) Replacement cost method, and (v) Development method. Guideline value is a benchmark for taxes, not a primary valuation methodology in itself for determining market value.

May/June 2022

59. What is the purpose of dual rates of interest when using valuation tables?
(A) One rate applies to residential property, and the other, higher rate applies to commercial property.
(B) One rate is used for calculating annual depreciation, and the other is used for calculating appreciation.
(C) One rate is applied to the loan principal, and the other, lower rate is applied to the interest component.
(D) One rate is for the expected return on rental income, and the other is for the sinking fund contribution.

Ans :

(D) One rate is for the expected return on rental income, and the other is for the sinking fund contribution.
Valuation tables are available that incorporate dual rates of interest to simplify calculations. This is particularly for determining the capitalized value where one interest rate represents the return expected from the rental income of the property, and the second, different rate is used for calculating the contribution to the sinking fund for capital redemption.

Oct/Nov 2023

60. An investor wants a 5% return on a land plot costing ₹1,00,000 and a 6% return on a building costing ₹20,00,000. What is the total desired annual income from the property, before considering any outgoings?
(A) ₹1,20,000
(B) ₹1,25,000
(C) ₹5,000
(D) ₹1,30,000

Ans :

(B) ₹1,25,000
The total desired annual income is the sum of the expected returns from both the land and the

(C) The existing mortgage must be paid off, as the reverse mortgage must be in a first lien position.
A borrower may qualify for a reverse mortgage even with an existing home loan. However, a critical condition is that the reverse mortgage must hold the first lien position on the property title. Therefore, any existing mortgage must be fully paid off, potentially using an initial lump-sum disbursement from the new reverse mortgage loan itself.

Oct/Nov 2017

52. What is the minimum frequency at which the valuation of the residential property under an RML must be conducted by the lender?
(A) Every year
(B) Once every two years
(C) Only at the beginning of the loan tenure
(D) Once every five years

Ans :

(D) Once every five years
To account for changes in market value, the property mortgaged under an RML is subject to periodic re-valuation. The lending bank or institution decides the frequency of these re-valuations. However, the guidelines mandate that this valuation must be conducted at least once every five years to reassess the property's value and adjust the loan quantum if necessary.

May/June 2008

53. The 'non-recourse' or 'no negative equity' guarantee in an RML product ensures what for the borrower?
(A) The initial interest rate on the loan is fixed and is guaranteed not to increase during the tenure.
(B) The bank gives up its right to sell the property to recover the outstanding loan under any circumstances.
(C) The borrower's total debt liability will never exceed the net value realized from the property's sale.
(D) The borrower's legal heirs are protected from being contacted for any loan recovery efforts whatsoever.

Ans :

(C) The borrower's total debt liability will never exceed the net value realized from the property's sale.
The 'non-recourse' guarantee is a crucial protection for the borrower. It means the lender's recovery is limited only to the mortgaged property. The borrower or their estate will never be liable to pay more than the net value realized from the sale of the property, even if the loan outstanding exceeds this amount.

Oct/Nov 2013

54. Which of the following is cited as a reason for the limited success of the RML scheme in India?
(A) The interest rates charged on RML loans are significantly lower than prevailing market rates.
(B) The scheme does not provide regular income after the fixed loan tenure of 15-20 years.
(C) The loan amount offered is usually very high compared to the property's current market value.
(D) The mandatory re-valuation of the property is done only once at the beginning of the loan.

Ans :

(B) The scheme does not provide regular income after the fixed loan tenure of 15-20 years.
One of the key reasons for the scheme's low uptake is that the income stream is not for life. Payments stop after the fixed loan tenure (e.g., 20 years), even if the owner continues to live in the house. This creates uncertainty for the senior citizen on how to manage their finances after the payment period ends.

May/June 2015

55. In the formula for calculating RML periodic payments

$$\text{Instalment Amount} = \frac{\text{PV} \times \text{LTV} \times \text{R} \times \text{I}}{(1+\text{I})^{n} - 1}$$

What does 'PV' represent?
(A) Present Value of future interest payments
(B) Periodic Value of the instalment
(C) Potential Value of the loan
(D) Property Value

Ans :

(D) Property Value
The formula provided by the NHB is used to calculate the periodic instalment amount under an RML. In this formula, the variable 'PV' stands for Property Value. This is the appraised value of the residential house or flat that is being

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Value is dynamic and changes over time due to factors like demand, supply, and depreciation. Price is determined by market forces and includes profit, so it is not necessarily equal to value. However, cost (past expenditure) and value (future benefits) are distinct concepts and are not always, or even usually, equal. Therefore, statements 1 and 3 are correct.

Oct/Nov 2022

14. Which of the following factors would likely lead to a lower valuation for a plot of urban land?

(A) The plot is at a lower level than the adjacent road and is known to be prone to waterlogging.
(B) The plot is a corner plot with multiple road frontages, offering better access and light.
(C) The plot has a high permissible Floor Space Index (FSI), allowing for more construction.
(D) The plot is located near essential amenities like schools, markets, and transport facilities.

Ans :

(A) The plot is at a lower level than the adjacent road and is known to be prone to waterlogging.
A plot that is situated at a level lower than the main road generally has a lower value. This is because it may require significant expenditure on filling and leveling to make it suitable for construction and may be prone to waterlogging, thus reducing its desirability and market price compared to a plot at road level.

May/June 2018

15. Identify the correct pair of property type and its typical rental income range.

(A) Residential Property : 6% to 9%
(B) Commercial Property : 4% to 6.5%
(C) Commercial Property : 2% to 4%
(D) Residential Property : 4% to 6.5%

Ans :

(D) Residential Property : 4% to 6.5%
The text specifies the average net rental income ranges used in the Rent Capitalisation Method. For residential properties, the range is typically 4% to 6.5%, depending on the location. For commercial properties, the expected return is higher, generally ranging from 6% to 9%. Therefore, the pair in option D is correctly stated.

Oct/Nov 2016

16. According to the provided text, what dual qualification do banks often require from a valuer?

(A) A degree in civil engineering and a separate, unrelated postgraduate degree in law.
(B) Registration under the Wealth Tax Act and professional membership with the Institution of Valuers.
(C) Statutory registration with the Income-tax Department and a separate license from the local municipality.
(D) Professional membership with the Institution of Valuers and a special certification from the Reserve Bank of India.

Ans :

(B) Registration under the Wealth Tax Act and professional membership with the Institution of Valuers.
The text clearly states that many banks and financial institutions have a two-fold requirement for valuers. They must not only have the statutory registration granted under the Wealth Tax Act but also hold a professional membership or fellowship with the Institution of Valuers, Delhi, ensuring both legal compliance and professional accreditation.

May/June 2014

17. Based on the text, obsolescence causes a loss in a building's value primarily because of:

(A) The physical wear and tear that results from constant usage and prolonged exposure to elements.
(B) The use of poor structural design and low-quality workmanship during the original construction.
(C) The asset becoming functionally outdated compared to newer buildings with better amenities.
(D) The long-term negative effect of adverse climatic conditions like high humidity and heavy rainfall.

Ans :

(C) The asset becoming functionally outdated compared to newer buildings with better amenities.
The source defines obsolescence as a loss in value resulting from the building becoming functionally or technologically outdated. This happens due to

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building. The return on land is 5% of ₹1,00,000, which is ₹5,000. The return on the building is 6% of ₹20,00,000, which is ₹1,20,000. Therefore, the total desired annual income is ₹5,000 + ₹1,20,000 = ₹1,25,000.

May/June 2016

61. For a building with a construction cost of ₹20,00,000, annual repairs are 0.5% of this cost. The sinking fund contribution is calculated using a coefficient of 0.005. What is the total of these two specific outgoings?
(A) ₹15,000
(B) ₹10,000
(C) ₹20,000
(D) ₹25,000

Ans :

(C) ₹20,000
This question requires calculating two separate outgoings. Annual repairs are 0.5% of the construction cost: 0.005 × ₹20,00,000 = ₹10,000. The amount towards the sinking fund is the coefficient multiplied by the cost: 0.005 × ₹20,00,000 = ₹10,000. The sum of these two outgoings is ₹10,000 + ₹10,000 = ₹20,000.

Oct/Nov 2009

62. A temporary structure was built at a cost of ₹1,20,000. Its salvage value after 6 years is estimated to be ₹30,000. What is the annual depreciation amount using the Straight Line Method?
(A) ₹20,000
(B) ₹15,000
(C) ₹25,000
(D) ₹15,000

Ans :

(D) ₹15,000
The Straight Line Method calculates annual depreciation using the formula D = (C-S)/n. Here, the original cost (C) is ₹1,20,000, the salvage value (S) is ₹30,000, and the life (n) is 6 years. The calculation is (₹1,20,000 - ₹30,000) / 6 = ₹90,000 / 6 = ₹15,000 per year.

May/June 2023

63. For a structure with an initial cost of ₹1,20,000, the depreciation rate under the WDV method is determined to be 20.64%. What is the depreciation amount for the first year?
(A) ₹24,768
(B) ₹15,000
(C) ₹20,640
(D) ₹30,000

Ans :

(A) ₹24,768
The depreciation for the first year using the Written Down Value (WDV) method is calculated by applying the depreciation rate to the original cost. Given the original cost of ₹1,20,000 and a rate of 20.64%, the depreciation is ₹1,20,000 × 0.2064 = ₹24,768. The table in the text shows a rounded value of 24770.

Oct/Nov 2018

64. Based on the WDV depreciation table provided, if the book value (WDV) at the beginning of Year 2 is ₹95,230 and the depreciation for Year 2 is ₹19,650, what is the WDV at the end of Year 2?
(A) ₹1,14,880
(B) ₹75,580
(C) ₹60,020
(D) ₹44,420

Ans :

(B) ₹75,580
The Written Down Value (WDV) at the end of a year is the WDV at the beginning of the year minus the depreciation for that year. Following the provided table, the WDV at the start of Year 2 (end of Year 1) is ₹95,230. Subtracting the Year 2 depreciation of ₹19,650 gives ₹95,230 - ₹19,650 = ₹75,580.

May/June 2007

65. A property has a land area of 533 m^2, a total built-up area of 205 m^2, and a permissible FSI of 1. What is the usable/balance FSI in square meters?
(A) 205 m^2
(B) 328 m^2
(C) 533 m^2
(D) 738 m^2

Ans :

(B) 328 m^2
The permissible FSI of 1 on a 533 m^2 plot means the maximum allowable built-up area is 1 × 533 = 533 m^2. The existing built-up area is 205 m^2. The usable or balance FSI is the difference between the permissible area and the used area: 533 m^2 - 205 m^2 = 328 m^2.

NODIA

(B) Can be a non-resident Indian owning property in India.
(C) Must have a regular source of pension income.
(D) Must be an Indian Citizen above 60 years of age.

Ans :

(D) Must be an Indian Citizen above 60 years of age.
The primary eligibility criterion for the Reverse Mortgage Loan (RML) scheme is age. The prospective borrower must be an Indian Citizen and must be above 60 years of age. The scheme is specifically targeted at senior citizens to help them generate income from their self-occupied residential property during their post-retirement years.

Oct/Nov 2011

40. For a married couple applying as joint borrowers for an RML, what is the age requirement?
(A) At least one spouse must be above 60, and the other spouse must not be below 55.
(B) Both of the spouses must be above the mandatory eligibility age of 60 years.
(C) Both of the spouses must be above the minimum co-borrower age of 55 years.
(D) The average age of the couple must be calculated to be at least 60 years.

Ans :

(A) At least one spouse must be above 60, and the other spouse must not be below 55.
When a married couple applies for a Reverse Mortgage Loan as joint borrowers, the age criteria are slightly flexible. The condition is that at least one of the spouses must be above the primary eligibility age of 60 years, while the other spouse must not be below 55 years of age, at the discretion of the lender.

May/June 2010

41. Which of the following statements regarding the property for an RML is INCORRECT?
(A) The borrower must be the legal owner of the residential property being offered as collateral.
(B) The property must have a clear and marketable title and be free from any encumbrances.
(C) The property can be a commercial property if it is the primary source of the owner's income.
(D) The residual life of the property as assessed by the valuer should be at least 20 years.

Ans :

(C) The property can be a commercial property if it is the primary source of the owner's income.
The RML scheme has strict criteria regarding the collateral. The property must be a residential house or flat located in India, owned by the borrower with a clear title, and have a residual life of at least 20 years. A key rule is that commercial property is explicitly not eligible for availing a Reverse Mortgage Loan.

Oct/Nov 2024

42. Consider the following statements about the obligations of a borrower under an RML:
Statement 1: The borrower is not required to service the loan during their lifetime.
Statement 2: The borrower does not need to make monthly repayments of principal and interest.
(A) Both Statement 1 and Statement 2 are correct.
(B) Both Statement 1 and Statement 2 are incorrect.
(C) Statement 1 is correct, but Statement 2 is incorrect.
(D) Statement 1 is incorrect, but Statement 2 is correct.

Ans :

(A) Both Statement 1 and Statement 2 are correct.
A fundamental feature of the Reverse Mortgage Loan is that it frees senior citizens from the burden of repayment during their lifetime. Both statements are correct as the borrower is not required to service the loan, meaning they do not have to make any monthly repayments of either the principal amount or the accumulating interest.

May/June 2017

43. The amount of loan available under RML depends on which of the following factors?
I. Age of the borrower
II. Appraised value of the house
III. Prevalent interest rates
IV. Borrower's pension income
(A) I and II only
(B) I, II, and III only
(C) II and IV only
(D) I, II, III, and IV

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Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that industrial units often adopt the WDV method is true. The reason is also true; this method results in higher depreciation charges in the initial years, which reduces the taxable profit and thus leads to a lower income-tax liability during that period. This tax advantage is a primary driver for its adoption.

Oct/Nov 2006

70. All of the following are valid purposes for which an RML loan amount can be used EXCEPT:
(A) Upgradation, maintenance, or renovation of the residential property.
(B) Investment in stocks, shares, or other speculative business ventures.
(C) Medical exigencies and treatment costs of the borrower or spouse.
(D) Supplementing pension or other income for day-to-day living expenses.

Ans :

(B) Investment in stocks, shares, or other speculative business ventures.
The RML scheme allows the loan amount to be used for various legitimate purposes such as property renovation, medical needs, and general sustenance. However, the funds are not intended for and are typically prohibited from being used for speculative activities, such as investing in the stock market, or for any business or commercial ventures.

May/June 2021

71. In the event of the death of the primary borrower (owner) in a joint RML, what right does the surviving spouse have?
(A) The spouse must immediately arrange to settle the outstanding loan amount in full.
(B) The spouse is automatically entitled to receive half of the property's appraised value in cash.
(C) The spouse must begin paying regular EMIs on the outstanding loan balance.
(D) The spouse can continue to live in the property for their entire lifetime.

Ans :

(D) The spouse can continue to live in the property for their entire lifetime.
The RML scheme provides protection for the surviving spouse in a joint loan. If the primary borrower passes away, the surviving spouse, who is a joint borrower, has the right to continue living in the property for the rest of their life. The loan only becomes due for repayment after the death of the last surviving borrower.

Oct/Nov 2010

72. Which of the following is an INCORRECT statement about the features of a Reverse Mortgage Loan?
(A) There is a minimum required period of property ownership of 5 years before one can apply.
(B) The scheme is applicable for the entire country, including rural areas where property is mortgagable.
(C) The bank has limited recourse, with recovery restricted to the mortgaged property's sale value.
(D) The loan can be prepaid at any time by the borrower without any prepayment levy or penalty.

Ans :

(A) There is a minimum required period of property ownership of 5 years before one can apply.
The RML guidelines explicitly state that there is no minimum period of ownership required for the property being mortgaged. The borrower must be the owner with a clear title, but they do not need to have owned the property for a specific duration before being eligible to apply for the loan. All other statements are correct features.

May/June 2005

73. Consider the following statements regarding property valuation:
1. Value undergoes change with the passage of time.
2. Cost and value are always equal.
3. Price is not necessarily equal to value.

Which of the above statements are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2, and 3

Ans :

(C) 1 and 3 only

NODIA

Oct/Nov 2021

48. What happens if a borrower outlives the loan tenure (e.g., 20 years) of an RML?

(A) The borrower and any joint borrower must immediately vacate the property for the bank to sell it.

(B) The periodic payments will cease, but the borrower can continue to live in the house for life.

(C) The borrower must begin repaying the outstanding loan amount in regular monthly EMIs.

(D) The ownership of the property is automatically and legally transferred to the lending institution.

Ans :

(B) The periodic payments will cease, but the borrower can continue to live in the house for life.

If the borrower outlives the specified loan tenure, the periodic payments from the lending institution will stop. However, the borrower retains ownership and the right to occupy the property as their primary residence for their entire lifetime without having to service the loan. The loan becomes due only upon their death or permanently moving out.

May/June 2024

49. How is a Reverse Mortgage Loan typically settled after the death of the borrower(s)?

(A) The legal heirs are legally obligated to immediately repay the outstanding loan in full from their own funds.

(B) The loan is settled from the net sale proceeds of the mortgaged property, which is sold by the lender.

(C) The outstanding loan amount is automatically waived by the lending institution as a mandated social benefit.

(D) The property is automatically transferred to the National Housing Bank (NHB) for a centralized settlement process.

Ans :

(B) The loan is settled from the net sale proceeds of the mortgaged property, which is sold by the lender.

Upon the death of the last surviving borrower or if they permanently move out, the RML becomes due for settlement. The standard procedure is to sell the mortgaged property. The outstanding loan (principal plus accumulated interest) is recovered from the sale proceeds, and any surplus amount is given to the legal heirs or beneficiaries.

Oct/Nov 2008

50. Do the legal heirs of an RML borrower have the option to repay the loan and retain the property?

(A) Yes, they can repay the total outstanding loan from other resources without the property being sold.

(B) No, the property must be sold by the bank through a public auction to ensure transparent recovery.

(C) Yes, but only if they agree to pay a significant prepayment penalty to the lender for early closure.

(D) No, the 'non-recourse' clause of the loan legally prevents the heirs from being involved in the settlement.

Ans :

(A) Yes, they can repay the total outstanding loan from other resources without the property being sold.

While the standard settlement procedure is through the sale of the property, the scheme provides an option for the borrower or their legal heirs/beneficiaries. They have the right to repay the entire outstanding loan amount from their own resources at any time, thereby clearing the mortgage and retaining full ownership of the property without it being sold.

May/June 2006

51. What is the requirement for an RML if the borrower has an existing mortgage on the property?

(A) The RML cannot be availed under any circumstances until the existing mortgage is fully paid off.

(B) The RML can be taken as a second charge, making it legally subordinate to the existing mortgage.

(C) The existing mortgage must be paid off, as the reverse mortgage must be in a first lien position.

(D) The existing mortgage lender must provide a formal No Objection Certificate for the second charge.

Ans :

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continuous improvements in construction and architecture, where new buildings offer superior amenities. This makes the older building less desirable and hence less valuable, distinct from physical deterioration caused by wear and tear.

Oct/Nov 2007

78. According to the provided table, what is the annual sinking fund factor required to redeem Re. 1 of capital over a period of 40 years at a 5% rate of interest?
(A) 0.013
(B) 0.011
(C) 0.015
(D) 0.008

Ans :

(D) 0.008
To find the required factor from the table, one must locate the row corresponding to the number of years (40) and the column corresponding to the rate percent (5%). The value at the intersection of the '40 years' row and the 'Rate percent 5' column is 0.008, which is the correct sinking fund factor.

May/June 2025

79. Using the dual rate table, what is the Present Value (or YP) of Re. 1 per annum for a period of 25 years, assuming a 10% return on capital and a 5% rate for redemption of capital?
(A) 8.27
(B) 8.17
(C) 7.68
(D) 8.46

Ans :

(A) 8.27
The question requires finding the Years Purchase (YP) factor from the dual rate table. The period is 25 years, and the rate for redemption of capital is 5%. By locating the row for '25 Years' and the column for 'Redemption of capital at 5%', we find the intersecting value, which is 8.27.

Oct/Nov 2019

80. Identify the INCORRECT pair regarding the life of building structures as per the CPWD manual.
(A) RCC framed structure : 75 years
(B) RCC framed structure : 55 years
(C) Load bearing wall structure : 55 years
(D) Semi-permanent structure : 30 years

Ans :

(B) RCC framed structure : 55 years
The 'Let Us Sum Up' section provides standard life estimates from the CPWD manual. It states that an RCC framed structure has a normal life of 75 years, a Load bearing wall structure has a life of 55 years, and a semi-permanent structure has a life of 30 years. The pair in option B incorrectly assigns 55 years to an RCC structure.

May/June 2009

81. Which of the following is NOT a primary role of a valuer as described in the text?
(A) sound knowledge of building costs and current real estate market conditions.
(B) Granting statutory registration to other aspiring valuers under the provisions of the Wealth Tax Act.
(C) Collecting data on property demand and supply and using professional judgment to assess value.
(D) Being aware of legal statutes and local provisions that govern real property transactions and usage.

Ans :

(B) Granting statutory registration to other aspiring valuers under the provisions of the Wealth Tax Act.
A valuer is a qualified professional who assesses property worth based on technical knowledge, market awareness, and legal provisions. They collect data and apply judgment. However, the authority to grant registration to other valuers lies with the Income-tax Department, not with an individual practicing valuer. This is an administrative function of the government.

Oct/Nov 2011

82. Which valuation method for open land would be most appropriate for a very large, deep plot located on a main road, where the land further from the road is less valuable?
(A) Belting Method
(B) Comparative Method
(C) Rent Capitalisation Method
(D) Extraction Method

Ans :

(A) Belting Method
The Belting Method is specifically designed for such scenarios. It addresses the valuation of

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(₹2,00,00,000), the lower end of the income range would be $0.06 \times 2,00,00,000 = ₹12,00,000$, and the upper end would be $0.09 \times 2,00,00,000 = ₹18,00,000$.

May/June 2011

99. According to the source, what is the consequence of the 'non-recourse' guarantee in an RML?

(A) The borrower is guaranteed to receive positive equity or surplus cash at the end of the loan term.

(B) The bank cannot take any legal recourse if the borrower defaults on paying property tax or insurance.

(C) The lender's claim for loan recovery is limited to the value realized from the property sale.

(D) The interest rate on the loan is guaranteed not to change throughout the entire loan tenure.

Ans :

(C) The lender's claim for loan recovery is limited to the value realized from the property sale.

The 'non-recourse' or 'no negative equity' guarantee, as explained in the source, ensures that the borrower's liability is capped. Even if the total loan outstanding (principal plus interest) exceeds the sale price of the property, the lender can only recover the net realizable value from the sale and cannot pursue the borrower or their estate for the shortfall.

Oct/Nov 2020

100. All of the following are factors that influence the return from agricultural land EXCEPT:

(A) The quality of the soil and the availability of water for irrigation.

(B) The access to the land by road and other approaches.

(C) The existence of a clear and marketable title of the land.

(D) The permissible Floor Space Index (FSI) for the area.

Ans :

(D) The permissible Floor Space Index (FSI) for the area.

Factors like soil quality, water availability, access, and clear title are crucial for determining the productivity and, hence, the return from agricultural land. Floor Space Index (FSI) is a developmental control norm applicable to urban land, governing the extent of construction, and is not a relevant factor for valuing agricultural land for farming purposes.

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(A) P-2, Q-4, R-1, S-3
(B) P-2, Q-4, R-1, S-3
(C) P-4, Q-2, R-3, S-1
(D) P-3, Q-4, R-1, S-2

Ans :

(B) P-2, Q-4, R-1, S-3
The correct matches are: P (Encumbrance) is a liability attached to property (2). Q (Years Purchase) is a multiplier to capitalize income (4). R (Sinking Fund) is a fund for capital recovery (1). S (Obsolescence) is a loss in value due to being outdated (3). This combination correctly pairs each term with its definition.

May/June 2020

87. Assertion (A): The 'Comparative Method' is the most popular method for valuing open urban land.
Reason (R): Land value in urban areas is a function of the collective demand for real property, both present and future, which is best reflected in sale-purchase transactions.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that the Comparative Method is most popular is true. The reason provided is also true and correctly explains why this method is effective. Urban land value is driven by collective demand, and recent transaction prices are the most direct reflection of this market sentiment, making the comparative approach logical and widely accepted.

Oct/Nov 2015

88. Which of the following is NOT a cause of depreciation for a building?
(A) An increase in the market rental rates in the property's locality.
(B) Deterioration in physical condition due to usage and exposure to weather.
(C) Continual improvement in construction technology making it outdated.
(D) Poor structural design or low-quality workmanship during construction.

Ans :

(A) An increase in the market rental rates in the property's locality.
Depreciation signifies a loss in value. Physical deterioration, obsolescence from new technology, and poor design all contribute to a building's loss of value. However, an increase in market rental rates in the area would generally lead to an increase in the property's capitalized value, not a decrease. It is a factor of appreciation, not depreciation.

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May/June 2013

89. A valuer is assessing a property where a tenant has paid a large lump-sum amount upfront. How does this affect the 'Rent Capitalisation Method' of valuation?
(A) It has no effect on the valuation, as only the agreed-upon monthly rent is considered.
(B) The Years Purchase (YP) factor must be significantly increased to account for the upfront payment.
(C) The actual rent received may not represent the fair rental income, requiring careful adjustment.
(D) The lump-sum amount is simply treated as the final capitalized value of the entire property.

Ans :

(C) The actual rent received may not represent the fair rental income, requiring careful adjustment.
The Rent Capitalisation Method relies on fair rental income. When a tenant pays a significant amount upfront, the subsequent monthly rent is often set at a lower-than-market rate. In such cases, the actual rent collected does not reflect the property's true earning capacity (fair rental income), and the valuer must make adjustments for an accurate valuation.

Oct/Nov 2021

90. What is the primary difference between the Straight Line Method (SLM) and Written Down Value (WDV) method of depreciation?
(A) SLM results in a uniform depreciation charge annually, while WDV results in a decreasing charge.
(B) SLM is used exclusively for valuing buildings, while the WDV method is used only for valuing land.

(C) SLM always assumes a salvage value of zero, while WDV requires a non-zero salvage value for calculation.
(D) SLM is a complex method used for tax purposes, while WDV is a simple method used for internal accounting.

Ans :

(A) SLM results in a uniform depreciation charge annually, while WDV results in a decreasing charge.
The fundamental difference lies in how the depreciation amount is calculated each year. The Straight Line Method allocates an equal amount of depreciation for every year of the asset's life. In contrast, the Written Down Value method applies a fixed percentage to the diminishing book value, resulting in a larger depreciation amount in earlier years which decreases over time.

May/June 2024

91. Which of the following is a key attribute of the Development Method of valuation?
(A) It is a valuation method that is only applicable to newly constructed, vacant plots of land.
(B) It primarily focuses on the historical cost of the property and its past transaction history.
(C) It is a retrospective method that is primarily used for calculating fire insurance premiums.
(D) It estimates value based on the property's potential after making modifications or additions.

Ans :

(D) It estimates value based on the property's potential after making modifications or additions.
The Development Method is a forward-looking approach that determines a property's value based on its development or re-development potential. It calculates the potential increase in capital value that could be achieved by making necessary additions or alterations, minus the cost of those works, to arrive at the property's enhanced potential value.

Oct/Nov 2008

92. Identify the correct statement regarding the settlement of a Reverse Mortgage Loan (RML).
(A) Any surplus from the sale of the property after settling the loan is retained by the bank as profit.
(B) Any surplus from the sale of the property after settling the loan is given to the borrower's heirs.
(C) The legal heirs are given the first option to purchase the property at a discounted market price.
(D) The loan must be settled within 30 days of the borrower's death, failing which a penalty is levied.

Ans :

(B) Any surplus from the sale of the property after settling the loan is given to the borrower's heirs.
After the loan becomes due, it is settled by selling the mortgaged property. The outstanding principal and accumulated interest are recovered from the proceeds. The guidelines clearly state that if there is any remaining amount or surplus after this final settlement, it must be passed on to the borrower's legal heirs or beneficiaries.

May/June 2006

93. A valuer is required to have knowledge of "outgoings" when valuing a property. Which of the following would NOT be considered an outgoing?
(A) Local municipal taxes
(B) Cost of annual maintenance
(C) Rental income
(D) Insurance premium costs

Ans :

(C) Rental income
'Outgoings' refer to the expenses incurred in relation to a property, which are deducted from the gross income to arrive at the net income. Local taxes, maintenance costs, and insurance premiums are all examples of outgoings. Rental income is the revenue or gross inflow from the property, not an expense or outgoing.

Oct/Nov 2017

94. The accuracy of the 'Extraction Method' of land valuation depends heavily on the quality of which estimate?
(A) The estimate of the property's potential for future rental income generation.
(B) The estimate of the future changes in local Floor Space Index (FSI) regulations.
(C) The estimate of the legal documentation costs for the eventual sale of the property.
(D) The estimate of the depreciation of the built-up area or existing structure.

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Ans :

(D) The estimate of the depreciation of the built-up area or existing structure.
The Extraction Method works by taking the sale price of a developed property and subtracting the value of the building to find the residual land value. Therefore, the accuracy of the final land value is directly and heavily dependent on the accuracy of the estimated value of the building, which in turn relies on a precise depreciation calculation.

May/June 2008

95. According to the RML guidelines, if a property is in a rural area on agricultural land that cannot be mortgaged, what is the implication?
(A) A reverse mortgage loan cannot be considered against a house constructed on such land.
(B) A reverse mortgage loan can be granted against the house with a special government guarantee.
(C) The loan can be granted if the local Panchayat provides a specific No Objection Certificate.
(D) The loan amount will be limited to 25% of the property's appraised value in such cases.

Ans :

(A) A reverse mortgage loan cannot be considered against a house constructed on such land.
A fundamental requirement for an RML is that the underlying property must be mortgagable. The text specifies that in some rural areas, agricultural land is legally restricted from being mortgaged. Consequently, a house built on such non-mortgagable agricultural land would not be eligible for a reverse mortgage loan, as the lender cannot secure a proper charge.

Oct/Nov 2013

96. Which of the following is NOT a reason cited for the low success rate of the RML scheme?
(A) The loan amount offered is often low compared to the market value of the home.
(B) The borrower loses ownership of the property at the beginning of the loan.
(C) Payments stop after a fixed tenure, creating financial uncertainty for the owner.
(D) The monthly payments received are low compared to prevailing market interest rates.

Ans :

(B) The borrower loses ownership of the property at the beginning of the loan.
A core feature of the RML is that the borrower remains the owner of the property and continues to occupy it. The reasons cited for its low success include the low loan amount, the cessation of payments after the tenure, and the low monthly payments. The borrower losing ownership is incorrect and contrary to the scheme's design.

May/June 2015

97. What is the primary distinction between 'price' and 'value' in real estate?
(A) Price is a future concept representing potential, while value is a past concept based on historical cost.
(B) Price is what is actually paid in a transaction, while value is the worth based on future benefits.
(C) Price is a fixed amount determined solely by the seller, while value is a variable amount set by the buyer.
(D) Price excludes the producer's profit margin and overheads, while value always includes these costs.

Ans :

(B) Price is what is actually paid in a transaction, while value is the worth based on future benefits.
Price is the actual amount of money exchanged in a transaction, determined by demand, supply, and a producer's profit. Value, on the other hand, is a more theoretical concept representing the worth of an asset based on the present value of the future income and benefits it is expected to generate.

Oct/Nov 2012

98. Based on the provided information, if a commercial property is valued at ₹2 Crore, what would be the likely range of its net annual rental income?
(A) ₹12,00,000 to ₹18,00,000
(B) ₹8,00,000 to ₹13,00,000
(C) ₹6,00,000 to ₹9,00,000
(D) ₹4,00,000 to ₹6,50,000

Ans :

(A) ₹12,00,000 to ₹18,00,000
The source states that for commercial property, the net rental income ranges from 6% to 9% of its value. For a property valued at ₹2 Crore

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large plots with limited frontage but significant depth by dividing the land into parallel 'belts'. Progressively lower rates are applied to the belts situated farther from the main frontage, accurately reflecting the diminishing value with increased distance from the road.

May/June 2010

83. A property is valued using the 'Valuation based on cost' method. The depreciated value of the building is calculated, and the value of the land is worked out separately. How is the total value of the property determined?

(A) By taking the higher of the two separately calculated values as the final property value.
(B) By calculating the weighted average of the depreciated building value and the land value.
(C) By adding the depreciated building value and the separately assessed land value together.
(D) By subtracting the current land value from the depreciated value of the building structure.

Ans :

(C) By adding the depreciated building value and the separately assessed land value together.
In the 'Valuation based on cost' method for a property comprising both land and a building, the two components are valued separately. The building's value is determined by taking its present cost and deducting appropriate depreciation. The land's value is assessed based on current rates. The total property value is the sum of these two components.

Oct/Nov 2024

84. Consider the following statements about the Reverse Mortgage Loan (RML) scheme:

1. The borrower's stake in the property increases over time.
2. Commercial property is eligible if it is the primary residence.
3. The maximum loan tenure for receiving payments is 20 years.
4. Payments received are taxable as 'income from other sources'.

Which of the above statements is/are correct?

(A) 3 only
(B) 1 and 4 only
(C) 2 and 3 only
(D) 1, 2, and 4 only

Ans :

(A) 3 only
Statement 1 is incorrect; the borrower's stake decreases. Statement 2 is incorrect; commercial property is not eligible. Statement 4 is incorrect; payments are tax-exempt under Section 10(43). Statement 3 is correct; the maximum period over which payments can be made to the borrower is indeed 20 years. Thus, only statement 3 is correct.

May/June 2017

85. What does the term 'Return Frontage' signify in the context of urban land valuation?

(A) A situation where the depth of the plot is significantly greater than its main road frontage.
(B) A plot that is facing a direction, such as South, which typically commands a lower market price.
(C) A plot that has multiple frontages, such as a corner plot that is open to two different roads.
(D) The original frontage of a plot that has been reduced due to a government road widening scheme.

Ans :

(C) A plot that has multiple frontages, such as a corner plot that is open to two different roads.
'Return Frontage' refers to a plot having more than one side open to a road, such as a corner plot (two frontages) or a three-side open plot. Such plots command a premium price in the market compared to a plot with only a single frontage, as they offer better access, light, and ventilation.

Oct/Nov 2005

86. Match the term (List-I) with its correct definition (List-II).

List-I (Term)
P. Encumbrance
Q. Years Purchase (YP)
R. Sinking Fund
S. Obsolescence

List-II (Definition)
1. A fund set aside to recover original capital.
2. A claim or liability attached to a property, like an easement right.
3. Loss in value due to an asset becoming outdated.
4. A multiplier for converting annual income into capitalized value.

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